TAMIM

CREDIT
White Paper

TAMM Asset Management
EQUITY | PROPERTY | CREDIT

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Current Macro Environment

The Australian economy remains in robust shape as it navigates the crosscurrents of higher interest rates against moderating inflation and a resilient labour force.

Rate Pain Bifurcates

Interest rate hikes by the RBA have acted as a handbrake, with economic growth slowing to 0.2%. The cash rate today currently sits at 4.1%, with the market forecasting a peak of 4.6% before cuts in the second half of 2024.

The impact of higher interest rates is being felt unevenly amongst the population (Figure 1). Younger cohorts have seen their savings and spending go backwards over the past year. Conversely, spending and savings in older cohorts have increased, largely as a result of higher returns from cash and term deposit investments. Commonwealth Bank noted that around one-third of the hikes are yet to be meaningfully felt, flagging further pressure on households and businesses.

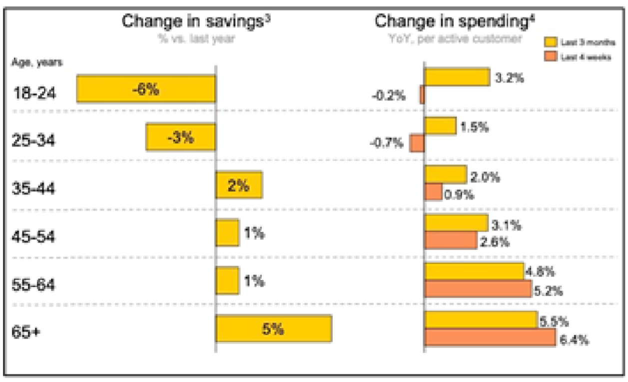


Figure 1: Commonwealth Bank

Across the economy, spending on essentials has proved resilient while discretionary purchases have reduced materially (Figure 2). This is supported by recent retail sales data, which has been broadly flat over the past year despite price increases. Household savings rates have returned to pre-pandemic levels and extra payments into offset accounts have fallen significantly. Mortgage repayments are expected to represent nearly 10% of disposable income by year-end, above the medium-term average of 8%.

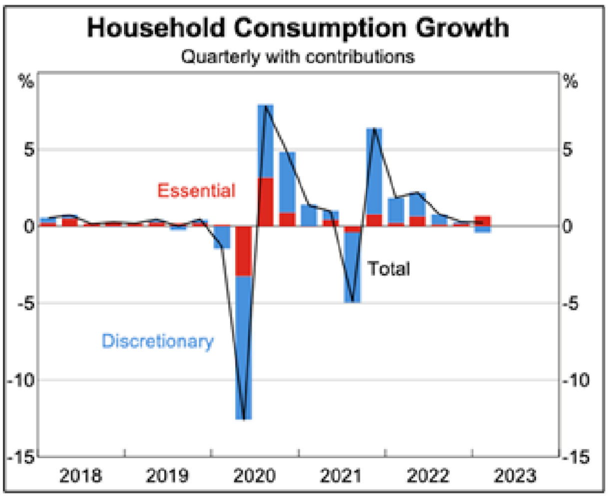


Figure 2: RBA

Inflation Abates

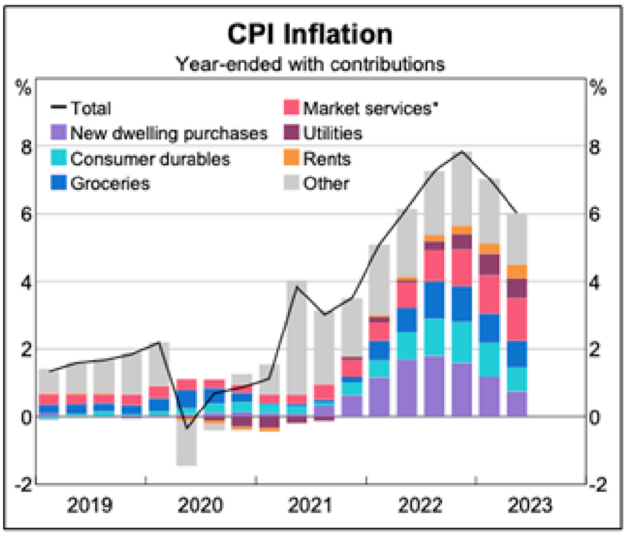


Figure 3: RBA

Despite inflation (Figure 3) remaining broad-based and well above the RBA's target band of 2-3%, there is clear evidence of price pressures alleviating. Sub-categories that contribute to the consumer price index including food, clothing, housing and education are all in varying degrees of downtrends, with insurance and financial services the only category still accelerating.

High energy and commodity prices caused by Russia's invasion of Ukraine have abated in addition to supply constraints from the pandemic.

Lower commodity prices, interest rate differentials and a slowdown in China have weighed on the Australian Dollar (AUD). The AUD has depreciated 5% against the US dollar and 13% against the Euro over the past year. A weak local currency means we pay more for our imports, which creates upward inflation pressure. Positively, on a trade-weighted basis, which compares movements in the AUD weighted by trade with each currency, has only fallen marginally, owing to weak currencies in Japan and China.

More is Less

The good news is that everyone who wants a job in Australia has one. The bad news is that a dollar today is worth less than it was a year ago.

The unemployment rate remains at a multi-decade low of 3.6%, although there are signs tightness is beginning to alleviate (Figure 4 & 5). Job volumes are in decline, immigration is increasing, and firms are noting an increase in capacity.

Figure 4: RBA

Top 10 industries by job ad volume

	Month-on-month Jul-23 vs Jun-23	Year-on-year Jul-23 vs Jul-22
Trades & Services	2.2%	-11.6%
Healthcare & Medical	-0.7%	-7.7%
Manufacturing, Transport & Logistics	1.1%	-24.2%
Hospitality & Tourism	12.4%	-40.3%
Education & Training	-1.0%	-0.8%
Administration & Office Support	-0.8%	-20.6%
Information & Communication Technology	-3.8%	-35.0%
Community Services & Development	-3.0%	-15.2%
Accounting	1.2%	-9.7%
Retail & Consumer Products	0.4%	-30.4%

Figure 5: Seek

Despite nominal wages increasing by 3.7% over the past year, real incomes (Figure 6, black line) fell by 3.2% after accounting for inflation, higher subsequent taxes and interest repayments. Household wealth has also taken a hit, falling 8% over the past year owing to lower property prices.

Businesses are also facing a meaningful increase in employee costs as a result of an 8.6% upward revision to the minimum wage, which will impact 30% of the labour force.

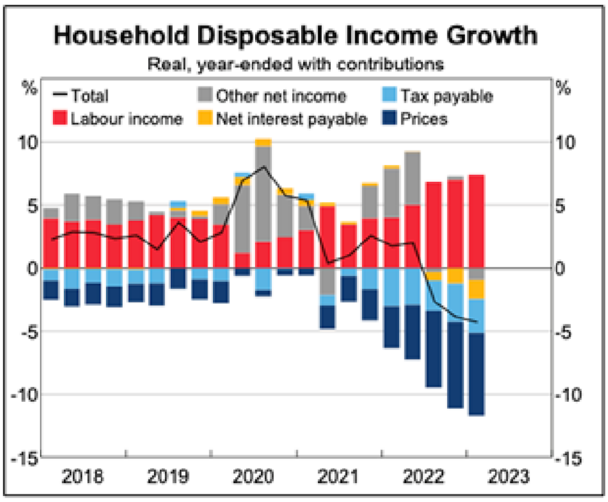


Figure 6: RBA

New Sheriff in Town

Deputy RBA governor Michele Bullock has replaced Philip Lowe and will become the first female central bank Governor Of Australia. The government also flagged several changes to the RBA to be enacted in 2024. Key changes include:

- The current single-board structure will be split in two. One board will set monetary policy while a second will oversee RBA governance and operations.
- A reduction in monetary policy meetings from eleven to eight per year, in line with US, English and European central banks.
- Scheduled news conferences after each monetary policy board meeting.

Domestic Home Lending

The total value of new residential mortgage lending, among both owner-occupiers and investors, fell for the third consecutive quarter, due to lower property prices and tighter lending standards.

Higher interest rates not only increase interest payments but also reduce the maximum borrowing capacity of potential buyers. The typical borrower is now being assessed at an interest rate of circa 9%, being the standard variable rate of 6% plus the 3% serviceability buffer imposed by the prudential regulator. This compares to the serviceability floor of 5% when the cash rate was 0.10% two years ago.

in total, the value of new lending remains materially above pre-pandemic levels. There has also been an uptick in refinancing, as 800,000 fixed-rate mortgages roll off (Figure 7).

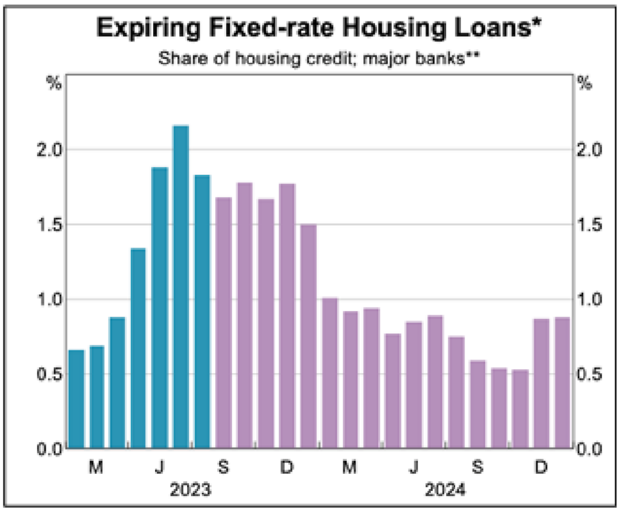


Figure 7: RBA

Positively, the quality of new lending continues to improve. High loan-to-value loans (debt is >80% of the property) fell below 30% for the first time since the series began in 2019. Moreover, the loans with high debt-to-income ratios (>6x) made up less than 8% of new loans, down from a peak of 24% in 2021.

Notwithstanding a recent uptick, impairments of non-performing residential loans remain well anchored (Figure 8). We do expect impairments to rise in the near term however given the strength of the labour market, a meaningful rise in mortgage defaults is unlikely.

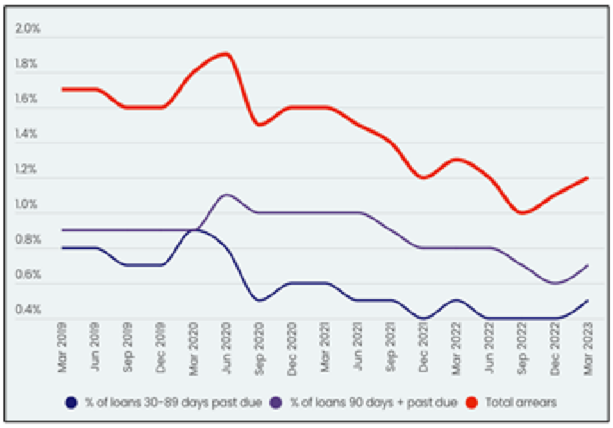
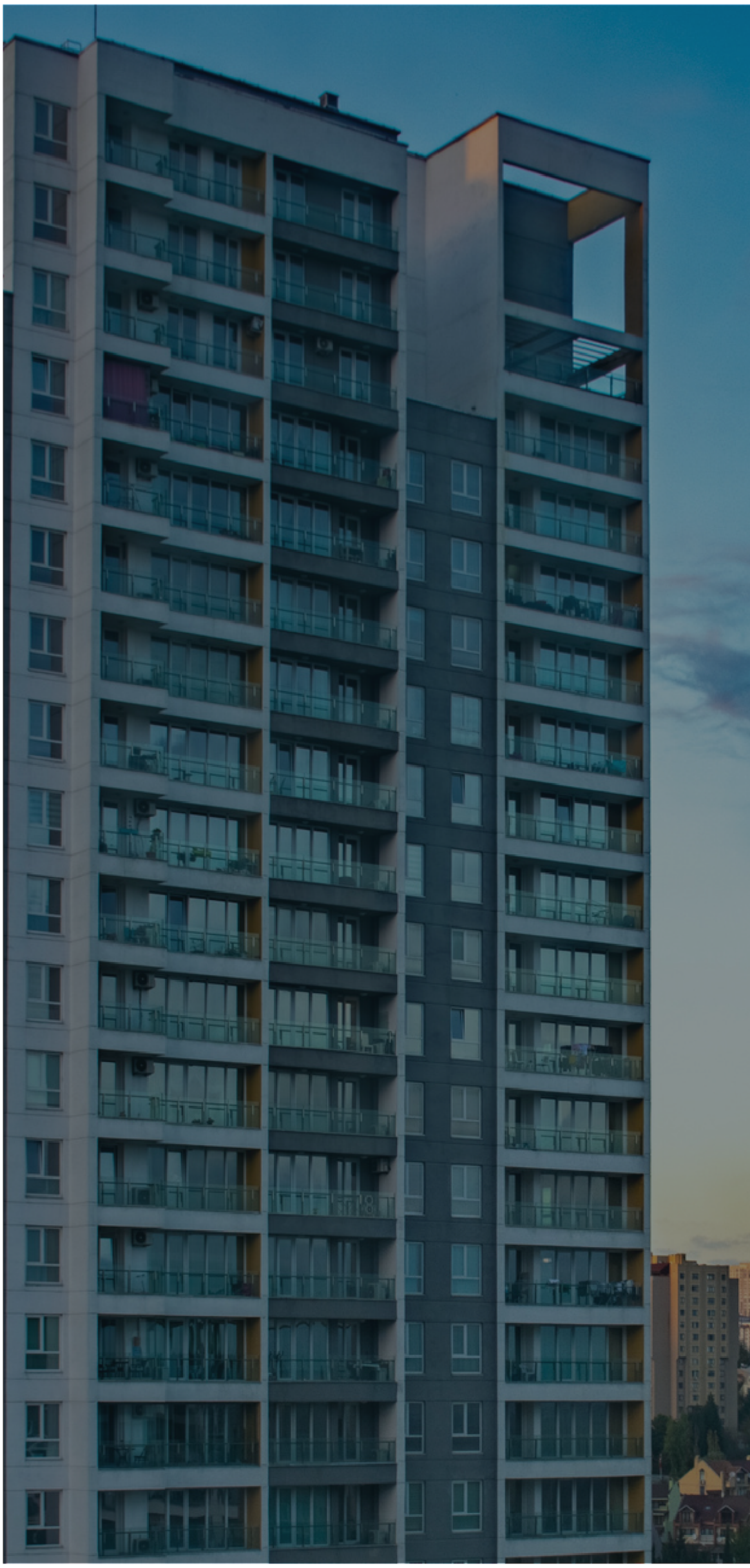


Figure 8: CoreLogic

Housing Shortage

The rental market remains extremely tight, with a combined capital vacancy rate of just 1.2%, compared to a ten-year average of 2.8%. Perth, Melbourne and Brisbane have achieved the fastest rate of growth over the quarter, while rent for units outperformed housing.



Despite the shortage, investment in new dwellings has declined by 5% over the past year. Pandemic-induced supply-chain pressures have largely unwound, however, there remains a shortage of tradespeople limiting completed properties.

Builders cite higher construction costs and poor buyer sentiment, in addition to interest rates weighing on demand.

Housing demand remains robust and underpinned by population growth. Still, there has yet to be a material supply response, illustrated by low private dwelling approvals. The government's $10 billion commitment to build 30,000 homes over the next five years will fall well short of the 175,000 required by 2027. This will buttress housing prices and new domestic home lending.

Business Funding Conditions

Like in residential, business lending rates have increased sharply as interest rate hikes flow through to borrowers. This has led to a contraction in the rate of business lending growth, which has stabilised at 5% (Figure 9). There continues to be strong investment from the agriculture, manufacturing, mining and transport sectors. However has been this offset by pockets of stress, notably in construction and office real estate.

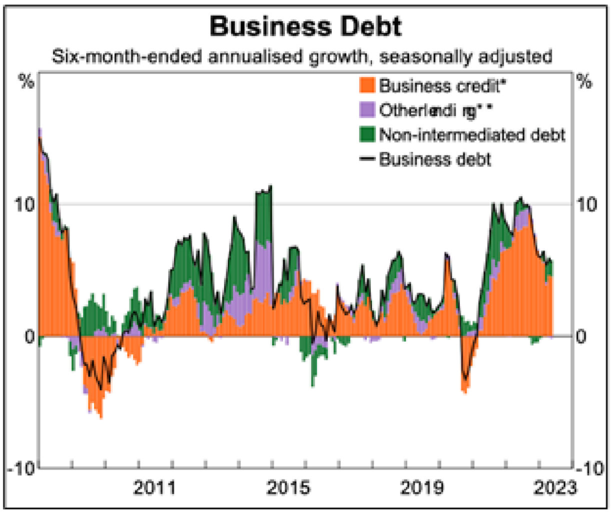


Figure 9: RBA

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As we have discussed extensively, the big banks have gradually shifted their loan books towards residential lending and away from business loans (Figure 10), particularly in the small-medium (SME) segment. As a result, non-bank borrowing demand has increased to a record high of 47%, representing a three-fold increase since 2018.

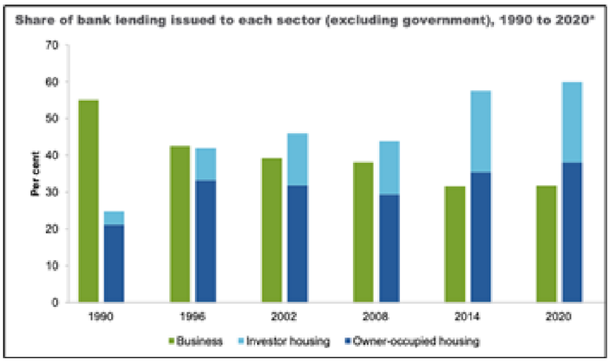


Figure 10: Productivity Commission

We believe this is a great opportunity for investors to provide capital to well-run and robust businesses that require lending to support growth and ongoing activities. In return, investors receive reliable monthly income distributions above that of rates typically available in term deposits and corporate bonds.

SME Resilience

SMEs have noted a gradual decline in new orders for goods and services owing to cash rate increases and inflation. Higher labour and energy costs are impacting margins, although this has been somewhat offset by price rises. Positively, SME's expectations of future activity – a harbinger of confidence, remain high (Figure 11). This is reflected in the 60% of SMEs who are looking to invest in their business, up from 55% in 2022. Moreover, loan commitments continue to grow, particularly to purchase property, machinery and equipment. We do however expect this to moderate as the economy slows into 2024.

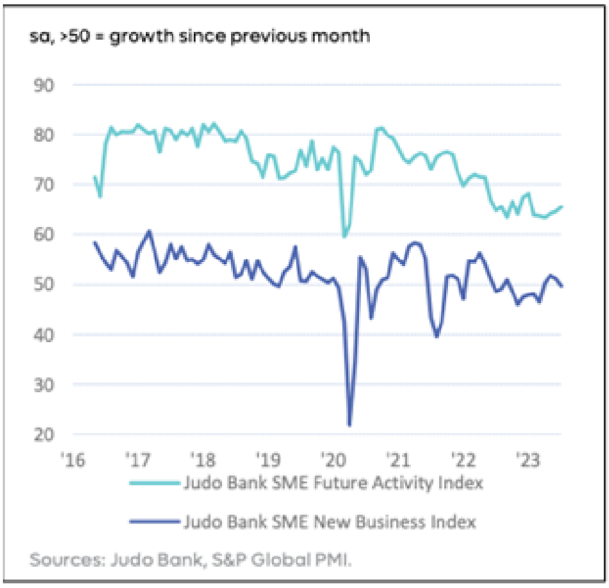


Figure 11: Judo Bank

The TAMIM Credit Fund remains well-placed to continue returning monthly income distributions to investors. Over 80% of the portfolio is in senior loans, which are at the top of the capital stack and therefore have first claim over collateral in the event of default. Senior secured loans are also backed by either cash flows or real assets providing insurance against adverse economic conditions.

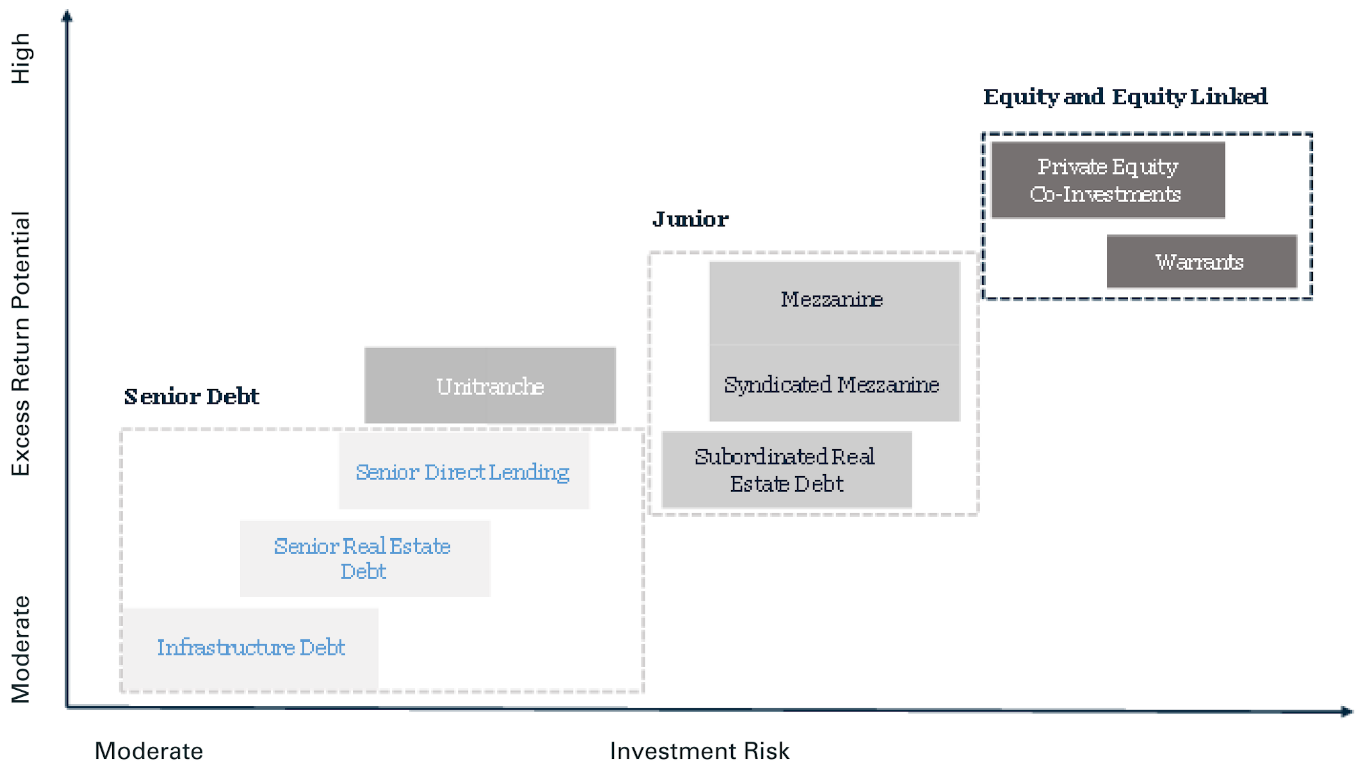
What is Private Debt?

Private debt is typically **secured** and has various **protections and/or covenants** in place. The debt is not widely held and is customised to the borrower's requirements, it is therefore **illiquid**.

Private Debt can encompass **corporate debt, real estate debt, infrastructure debt and opportunistic credit strategies.** Exposure to private debt can be via senior loans or subordinated/mezzanine loans and issuers may be investment grade but will typically sub- investment grade.

Private Debt is similar in some regards to the syndicated/bank loan and high-yield markets, though typically with higher yields, additional return sources, and different market dynamics. Private debt offers several advantages over high yield (including floating rate and lower mark-to-market volatility) or senior bank loans (including higher returns and prepayment protection) and often stronger covenants and better information/ monitoring rights. The trade off is lower liquidity, access via closed- ended funds, and more resource-intensive implementation and monitoring processes.

Private Debt Risk / Return Levels by Category*



Source: Longreach Credit Investments

*Mercer Private Markets, Private Debt in an Institutional Portfolio, May 2016

Unsecured - consumer or business loans generally smaller in size and lending is done against no security.

Factoring / discounting of invoices - business sells its accounts receivable to a third party at a discount. Security is the cash flow of the invoice.

Equipment Finance - loans to purchase equipment. Secured is assets purchased.

Property backed lending - business or consumer loans backed against property. Generally used for residential property purchases and dominated by the big banks. More private loans are being made with property as security for other uses of the funding.

Enterprise value lending - loans made against businesses or the cash flows of businesses. These loans can also be secured by property and personal guarantees from the owners of the business.

Introducing Direct Lending

A Global Asset Class; as yet untapped in Australia

Direct lending is a rapidly growing global asset class:

- AUM has grown at a CAGR of 33% since 2006 to stand at US$153bn controlled by global managers.[1]
- An additional US$49bn is held in publicly - listed US Business Development Companies (BDCs).[2]

Direct lending is a defensive asset with a lower standard deviation than most other alternative strategies.

As yet under-invested in Australia, largely due to a lack of appropriately skilled teams with requisite skills to execute the strategy.

Yet the direct lending opportunity in Australia is even greater than offshore due to the major banks' distorted overweight exposure to residential mortgages.

Due to considerable and unique structural forces in Australia, including shallow talent pools, retreating banks, lack of BDC's/ equivalents and a long-term focus on property backed lending, outsized risk adjusted returns relative to international counterpart markets are readily available for business lenders.

Residential Mortgage Concentrations

Australia: 66% of total bank assets

USA: 31% of total bank assets

UK: 21% of total bank assets

IMF average: 32% of total bank assets

Source: IMF database

1 Preqin; Special Report: Growing Interest in the Lower Middle Market, May 2017
2 Publicly-listed closed-end funds that invest in predominantly secured loans to lower-middle market corporate borrowers

The Rationale for Private Debt

The appetite for alternative defensive allocations continues to grow as investors seek new ways to preserve capital and generate stable income. This is supported by current low interest rate environment resulting in low absolute yields and recent equity market volatility. These factors create a compelling backdrop to allocate to the Australian private debt sector.

Private debt investments involve the sourcing and managing of loan portfolios that help to fill the current financing gap created by the long term decline in lending by Australian banks, particularly to small and medium sized enterprises. Institutional investors and high net worth individuals now have the ability to access a larger portion of this market historically dominated by banks.

Australian private debt has not experienced the same degree of institutional participation as has been experienced in other global markets. Historically the market has been intermediated by the big four Australian banks, with the only meaningful way for institutional investors to gain exposure through the purchase of bank issued bonds.

Structural and regulatory changes in Australia have led to the current situation changing rapidly. In the US and Europe, private debt markets are much more accessible with a great deal of competition with about 90% of market participation being institutional. The local private debt market is expected to follow the lead of developed offshore markets and open up opportunities for domestic institutional and high net worth investors.

“In an environment of low yields and volatile markets, we believe it’s worth exploring a private debt allocation”

Mercer Private Markets, Private Debt in an Institutional Portfolio, May 2016

Key standards and regulations enforced by APRA have had a significant impact on the four Australian banks. As c.2/3rds of the big four banks’ balance sheets are composed of mortgages, there has been a dramatic increase in the capital required to support this activity. This has starved other areas of capital required to support lending activities.

“With increased regulation and oversight, the Australian banks will increasingly need to adopt a ‘cookie cutter’ approach. This opens up a window of opportunity for non-bank lenders to provide an alternative and more flexible view of credit risk and increase their share of Australian corporate borrowings.”

EY; Credit Markets 2015-16: analysis and opinions on global credit markets; (Issue 3)

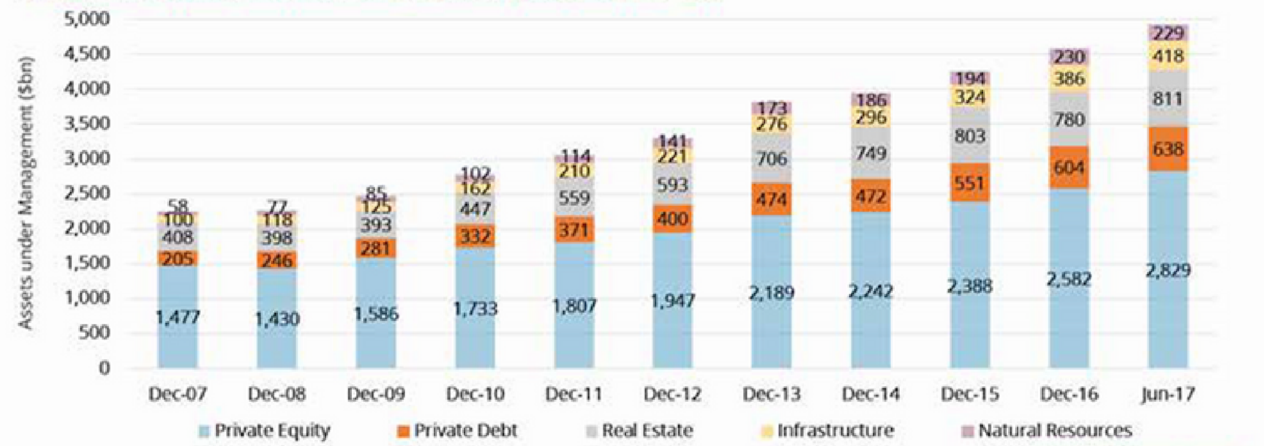
Australian and New Zealand private debt exhibits several compelling characteristics. It is not correlated to traditional asset classes and offers true portfolio diversification away from financial sector risk (where portfolios may have exposure through shares, hybrids and corporate credit).

There is now a significant opportunity in the Australian private debt market, where the banks have been forced to retreat and institutional investors have emerged to fill the void.

Being floating rate and largely illiquid, private debt also exhibits lower volatility and stable returns. Quarterly or monthly coupons provide portfolios with regular income streams, while their floating rate nature provides protection from inflation and future interest rate increases.

Debt covenant packages and information rights provide lenders with useful ‘line of sight’ into the performance of loans provided which allows proactive management.

Fig. 2.1: Private Capital Assets under Management by Asset Class, 2007 - 2017



Source: Preqin Online Products

TAMIM Credit Fund

Investment Strategy & Process

Strategy

The TAMIM Credit Fund's strategy is centred around funding the loan books of a variety of funds / platforms in Australia that source secured private loans and other credit opportunities.

Before allocating we undertake rigorous due diligence (see more below) on the credentials of the investment team, corporate governance, thoroughness of credit processes and ongoing monitoring and communication with the managers.

Generate an income stream.

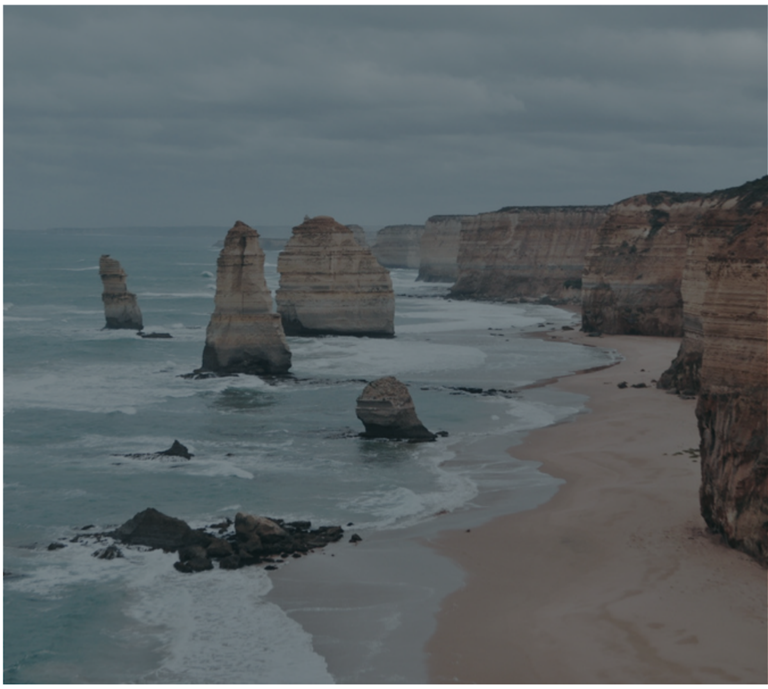
Will only invest up to a maximum of 5% of NAV into loans that are not secured.

Process

We look to fund loan books of leading private credit investment managers and loan platforms and provide diversification across lending type, underlying security, counterparty and industry concentration. The due diligence process includes the following:

- Assessing the quality of the investment team including corporate governance, origination, execution and portfolio monitoring capability;
- Completeness and quality of credit policies and procedures (including loan and borrower eligibility screening, loan approval process, loan administration, portfolio monitoring and reporting);
- Assessing loan structures, security arrangements, default rates, geographic and industry concentration; and;
- Underlying performance of investment managers / loan platforms.

An Investment Committee exists to consider and approve all investment decisions. 100% approval is required before any capital is deployed.



The Four P's

When assessing a new manger/loan platform, The Four P's are all important:

People

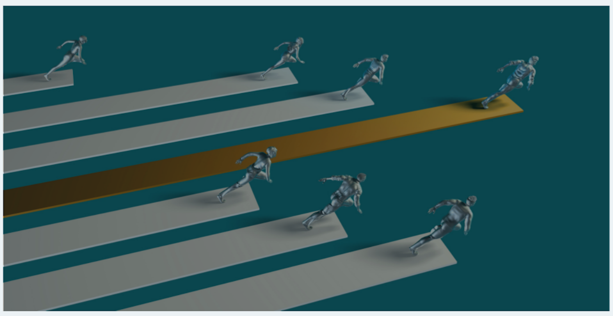
- A team that displays strong levels of integrity;
- Strong specific credit knowledge;
- Experience including origination, execution and portfolio monitoring capability.

Process

- Understand the complete credit and lending process;
- Evaluate the completeness and quality of the investment managers' credit policies and procedures;
- Assess loan structures, security arrangements, default rates, geographic and industry concentration.

Pedigree

- Strong corporate governance is essential;
- Security of business and overall team experience;
- Infrastructure and compliance review;
- Operational due diligence.



Performance

- Have the team or business been able to generate a return historically utilising their lending process;
- Assess and understand the underlying performance of investment managers / loan platforms.

Case Study

In the TAMIM Credit Fund, one of the key parts of our due diligence is the thorough examination of the deals, both current and historic, made by the funds/platforms being considered for inclusion in the portfolio. Seeing the level of detail and the ability to undertake this level of due diligence is not always possible for the smaller individual investor. Below is a deal executed by one of the funds/platforms included in the TAMIM Credit Fund. It is a perfect example of the kind of deals targeted in this space.

Case Study: Recycling Services Business

Background	• **'Recycling Services Business'(RSB)** owns one of four "large mixed" material recovery facilities ('MRF', pronounced "merf") in NSW. The company sought a $A5.00mm loan for growth initiatives. • As a consequence of China effectively banning the importation of foreign waste, the recycling industry in Australia has undergone a period of financial volatility, driven by a reduction in the commodity price for recycled glass and a significant increase in costs to recycle plastic bottles. • The forecast calendar 2018 financial performance enables debt / EBITDA < 2.00x; Interest cover > 3.00x
Opportunity	• A short dated loan exposure to a company that will record a highly increased revenue line in 2018, due to recontracting its two largest contracts and the introduction of the NSW Govt. Container Deposit Scheme. The expected trading result for RSB over the life of the proposed loan is significantly robust, allowing for comfortable repayment of the interest and principal.
The Loan	• **$5mm** senior secured loan provided to RSB in April 2018. 11 month term.
Collateral	• 1st ranking security interest over all present and after-acquired property ('ALL-PAAP') of the borrower • 1st ranking security interest over all present and after-acquired property of the guarantors • Mortgage over units in RSB
Returns	• Interest rate of **15.00%** pa (received monthly) ratcheting lower to **13.5%** pa following the first principal and interest repayment.

This is a perfect example as it highlights that the loans we are looking for exposure to are not simply all those rejected by the Banks. There are many cases that the Banks simply will not consider looking at or hearing out because they fail their arbitrary filters.

In this particular case, the Banks required three years of profitability to even begin considering the potential loan. As touched on above, due to market forces beyond the company's control they had a negative year. What the Banks didn't get an opportunity to hear was that the commodity price had recovered and their new contract meant revenue from collections increased tenfold.

About Us

TAMIM Asset Management is a boutique investment manager for wholesale investors with a unique investment platform approach. TAMIM provide sour investors with access to an effective and efficient investment platform to successfully manage their assets. The TAMIM platform utilises both funds (unit trusts) and Individually Managed Accounts (IMA) while partnering with best of breed managers across various investment styles and asset classes to allow you, our clients, to benefit from different market conditions.

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About TAMIM Credit Fund

The TAMIM Credit Fund is an Australian unit trust which funds the loan books of industry leading private credit investment managers and loan platforms. The Fund invests into private debt and other credit opportunities with the aim of generating an income stream for investors.

Key Features

- Partners with industry leading private credit investment managers and loan platforms
- Primarily secured loans
- Diversification across lending type, underlying security, counterparty and industry concentration
- Risk aware and long term approach to private debt

Investment objective and strategy

- Deliver an annual yield of approximately 8%, paid quarterly, by investing in private debt and other credit opportunities
- A focus on opportunities that are secured against either assets or business cash flow
- Rigorous and thorough due diligence process focusing on People, Pedigree, Process and Performance

Key Facts

Investment Structure:	Unlisted unit trust
Minimum investment:	A$100,000
Applications:	Processed monthly
Redemptions:	Quarterly, with 30 days notice
Unit pricing frequency:	Monthly
Distribution frequency:	Quarterly
Management fee:	1.25% p.a.
Performance fee:	Nil
Buy/Sell Spread:	+0.20%/-0.20%
Exit fee:	Nil
Administration & expense recovery fee:	0.15%
Unsecured debt limit:	5% of Fund assets
Target yield:	RBA Cash Rate + 6.75%
APIR code:	CTS6709AU

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