

# Unlisted Private Debt Fund Report

## AVARI Private Loan Income Fund

July 2023

Open ended property mortgage fund  
targeting distributions of 9.0% p.a.

For wholesale and sophisticated investors

## AVARI Private Loan Income Fund

### Contents

1.	Overview	2
2.	Key Considerations	3
3.	Key Metrics	4
4.	Fund Overview	5
5.	Loan Portfolio	11
6.	Management & Governance	13
7.	Past Performance	14
8.	Appendix – Ratings Process	15
9.	Disclaimer & Disclosure	16

## About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

### IMPORTANT NOTICE

This document is published by Core Property Research Pty Ltd ACN 620 084 880 (Core Property). Core Property is an Authorised Representative (Authorised Representative No. 1280479) of Core Property Research Holdings Pty Ltd ACN 633 170 751 (AFS Licence No. 518320) (Licensee). No representation is made by Core Property or the Licensee as to the accuracy or completeness of the contents of this document, and no responsibility or liability is accepted by Core Property or the Licensee for any errors, misstatements in or omissions from this document which arises from any use of or reliance on this document.

For further information, please refer to the Disclaimer & Disclosure notice at the end of this document.

# AVARI Private Loan Income Fund

July 2023

The AVARI Private Loan Income Fund (“the Fund”) is an open-ended, unlisted fund that invests in a portfolio of real estate backed loans, secured by first and second ranked mortgages. The Fund is managed by AVARI Capital Partners (“the Manager”), a real estate investment fund manager established in 2014 with over \$1B of assets under management.

The Fund operates as a pooled investment scheme where investor funds are aggregated and loaned out to borrowers across a portfolio of loans. The Fund issues loans directly to borrowers as well as investing in related funds which issue loans to borrowers. The Fund is open ended and is available to wholesale and sophisticated investors, with a minimum investment of \$50,000 (“the Offer”). The Fund has a target income distribution of 9.0% p.a. (net), with distributions paid on a monthly basis.

The Fund has an investment strategy that seeks to identify loans which offer an attractive risk/reward profile. A comprehensive risk assessment is undertaken on all loans which includes a comprehensive due diligence review undertaken by a separate team as well as a final review by an investment committee with an independent Chairman. The Manager also adopts a set of internal guidelines to ensure the risk exposures remain within certain limits. The Fund has maintained a 100% preservation of investors’ capital since the Fund was established in May 2021.

A key feature of the Fund is that it passes through the full interest on the loan to investors, after deducting a management fee and costs. Distribution payments may vary on a month-to-month basis based on the actual interest that is earned. This has allowed the Fund to deliver an average distribution of 10.8% p.a. since inception, which is above the current target of 9.0% p.a. Investors should be aware that past performance is not an indicator of future results, and the targeted returns are not guaranteed.

The Fund targets an average Loan-To-Value Ratio (LVR) of under 65%, with the current LVR being 51.8% at June 2023. The main characteristics of the current portfolio are: (1) 99.4% invested in first ranked mortgages, (2) an average loan duration of 6.5 months, with loans terms typically 6-24 months, and (3) a focus on land (62.0%) and subdivision (19.1%) loans, with a smaller allocation to construction (9.0%) and residual stock (9.9%) loans. However, the characteristics of the loan portfolio are expected to change with prevailing market conditions and as new loans are introduced into the portfolio.

The Fund offers a monthly withdrawal facility, which is subject to the financial position of the Fund and its liquidity position at that time. The Trustee has advised that it has fulfilled all withdrawal requests within the stated time period for the Fund since inception. Withdrawals are processed with a one-month notice period.

Core Property considers the management fee (0.50% p.a. of the capital invested) to be appropriate and in line with market practice.

Exposure to real estate construction/development risk or short-term lending on real estate transactions implies that investors are exposed to risks associated with repayment of capital and interest income. Investors should also expect the risk profile of the portfolio to change over time, and the Fund’s performance will depend on the Manager’s ability to deploy the capital of the Fund.

Core Property is unable to comment on the risks associated with specific loans within the Fund. Core Property has relied on the representations made by the Manager regarding the loan management processes, borrower assessment and loan documentation requirements, and the management team’s capability in operating the Fund.

Core Property considers the Fund would be best suited to wholesale investors who understand the risks associated with short to medium term lending for land development, construction and residual stock. Such loans typically provide higher returns albeit with higher risks over a shorter time periods. Investors should also be aware that the size of the Fund may impact the Manager’s ability to manage counterparty and asset concentration risks. An investment in the Fund should be a small part of an investment portfolio.

## Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

## Fund Details

Offer Open:	Open-ended
Minimum Initial Investment:	\$50,000
Unit Entry Price:	\$1.00 per unit (1 July 2023)
Fund Term:	Open
Targeted IRR return:	9% p.a. (net)
Distribution Frequency:	Monthly
Liquidity:	Monthly <sup>1</sup>

Note 1: Withdrawals based on 1 full month notice.

## Fund Contact Details

Simon Riordan  
Partner, Head of Distribution  
simon.riordan@avaricapitalpartners.com.au  
Phone: 0411 087 408

Sam Burrell  
Associate Director, Distribution  
sam.burrell@avaricapitalpartners.com.au  
Phone: 0400 323 479

## Fund Website

[www.AVARICapitalpartners.com.au](http://www.AVARICapitalpartners.com.au)

Note: This report is based on the AVARI Private Loan Income Fund Information Memorandum dated October 2021, together with other information provided by AVARI Capital Partners.

## Key Considerations

**Management:** AVARI Capital Partners was established in 2014 as a property and debt manager offering real estate and private loan funds to wholesale investors, high net worth individuals, hedge funds and institutions. AVARI has over \$1.0 billion of assets under management, including office, industrial and residential properties. Since 2016, AVARI has undertaken over \$300 million of loans and has maintained a 100% preservation of capital for investors. Management and employees of AVARI also invest in the Fund, providing an alignment of interest for investors.

**Fund Structure:** The Fund is open ended. Investor funds are pooled by the Fund and invested into an underlying portfolio of loans secured by real property mortgages in Australia. The Fund issues loans direct to borrowers and also invests in other related funds which issues loans to borrowers.

**Unit Price:** The Fund is open-ended. Investors may acquire units at the start of each month when the unit price is set. The unit price is determined after the payment of all distributions which take into account interest earned less management fees and expenses. The unit price is \$1.00 per unit at 1 June 2023.

**Investment Strategy:** The Fund invests in loans which are secured by first or second mortgages on real property. The Manager adopts an opportunistic approach to loans which offer an attractive risk/reward profile, rather than simply higher yields. The Fund maintains a set of investment guidelines which includes: (1) targeting the portfolio to have a weighted average Loan to Value Ratio (LVR) of less than 65% across all the loans, with a maximum of 80% for any individual loan, (2) a maximum exposure of 15% of the portfolio to any one loan and 20% to any one borrower, and (3) a maximum exposure of 5% to second mortgage loans. Loans are typically up to \$15M in size with a duration of 6-24 months.

**Investment Process:** The Manager undertakes scenario testing to ensure each loan has sufficient downside protection as part of the assessment process. Loans are assessed in three stages, which involves: (1) initial assessment and scenario testing, (2) a separate due diligence review, and (3) review by Investment Committee with an Independent Chairman.

**Current Portfolio:** The portfolio at June 2023 consists of \$94.2M of loans, \$9.6M allocated to a pending loan and \$13.3M in cash. The portfolio has 13 loans with an average LVR of 51.8% (or 41.7% including cash) and maturity of 6.5 months. The portfolio is largely invested in loans for land (62.0%) and subdivision (19.1%) with a smaller weighting to construction (9.0%) and residual stock (9.9%). The loans are secured across properties in NSW (52.1%), VIC (32.5%) and QLD (15.4%).

**Distributions:** The Manager is currently targeting the Fund to deliver distributions of at least 9.0% p.a. paid on a monthly basis. The Fund pays distributions from the interest earned each month, net of management fees and expenses. As such, the distribution paid each month may vary based on the actual interest charged. The distribution for June 2023 was 0.7658 cents per unit, equivalent to 9.2% p.a. annualised.

**Fees:** Core Property considers the fees charged to be appropriate for the Fund.

**Investment risks:** Core Property is unable to comment on the risks associated with specific loans. The performance of the Fund will depend on, but not be limited to (1) the Fund's risk management policies and the Manager's adherence to these policies, (2) the level of security supporting each loan, including borrowers' ability to complete the underlying property transaction, (3) risks specific to each property sector in which the loans are made, and (4) the underlying property market risks specific to each loan. The escalation of any of these risks is likely to adversely impact expected returns.

**Liquidity:** The Fund provides monthly withdraws for investors. Withdrawals are subject to the discretion of the Trustee based on the financial position of the Fund and available liquidity. Withdrawals are processed with one full month notice period. Withdrawals are paid out the cash reserves of the Fund. The Manager has advised that it has met all withdrawal requests for the Fund since inception.

## Investment Scorecard

### Management Quality



### Governance



### Portfolio



### Income Return



### Total Return



### Gearing

NA

### Liquidity



### Fees



## Key Metrics

Fund Structure		Fees Paid	
The Fund is an unlisted, unregistered open ended unit trust that invests in secured property credit transactions. The Fund pools investor funds which are loaned out to borrowers directly. The Fund also invests in other loan funds as well as cash and cash like products for liquidity.		Entry Fee:	Nil
<b>Management</b>		Management Fee:	0.50% p.a. (net of GST) of the capital invested.
AVARI Capital Partners is a property and real estate debt investment manager with over \$1.0 billion of assets under management. Established in 2014, the Manager has a fully integrated in house property team that focusses private loan funds for commercial property and real estate debt. The Directors and employees of AVARI currently invest in 3.4% of the units of the Fund on the same terms and conditions as existing investors, providing and alignment of interest.		Costs and Expenses:	Based on amount incurred.
<b>Portfolio Guidelines</b>		Exit Fee:	Nil
Investment Strategy:	The Fund invests in first and second ranked mortgage loans secured on land development, subdivisions, residual stock, and construction.	<b>Portfolio Metrics as at June 2023</b>	
Location:	Australia	Loan Book	\$94.2M
Security:	100% of investments to be secured by first and second ranked mortgages.	Pending Loans	\$9.6M
Target Portfolio LVR:	Average portfolio to be below 65% LVR, with a maximum 80% for any one loan	Cash at Bank	\$13.3M
Concentration Limits:	5% maximum to second ranked mortgages 15% maximum any one loan 20% maximum any one borrower 33% maximum any one region 50% maximum any type of use	Total Portfolio	\$117.1M
Loan Term:	6 - 24 months (indicative)	Mortgage Type	First Mortgage (99.4%) Second Mortgage (0.6%)
<b>Return Profile</b>		Weighted Average LVR	51.8% (excl cash) 41.7% (incl cash)
Target Return IRR:	Target Return IRR = 9.0% p.a. (net of fees)	Average Loan Maturity	6.5 months
Distribution Frequency:	Monthly	Loan Amount:	\$0.8M - \$15.0M
Tax:	Tax consequences depend on individual circumstances and investors should seek their own taxation advice.	Type of Loan	Land Residential 56.5% Land Industrial 5.5% Subdivision Residential 3.2% Subdivision Industrial 15.9% Construction Residential 9.0% Residual Stock Residential 9.9%
Investment Period:	The Fund is open-ended. Investors may submit a withdrawal on a monthly basis, subject to liquidity.	Loan Location	NSW 52.1% VIC 32.4% QLD 15.4%
<b>Risk Profile</b>		<b>Legal</b>	
Property/Market Risk:	Investors may be exposed to a potential capital loss if a loan is not fully repaid.	Offer Document:	The AVARI Private Loan Income Fund Information Memorandum dated October 2021
Counterparty Risk:	Investors are exposed if any selected borrower fails to repay a loan, either in whole or in part, which will adversely impact returns and the recovery of capital.	Wrapper:	Unlisted Property Debt Fund
Concentration Risk:	The portfolio may be exposed to a concentration of risks by borrowers, location and the underlying property sector.	Investment Manager	AVARI Capital Partners Pty Ltd (ACN 626 245 172)
Manager Risk:	The performance of the Fund relies on the ability of the Manager to originate, manage and profitably realise loan investments within a specific period of time.	Trustee:	AVARI Holdings Pty Ltd (ACN 603 200 648, AFSL No. 472222)
Liquidity Risk:	Investors may not be able to recover their investment, if the loans are not fully repaid.		
Security Risk:	Value of the secured assets and any additional security which forms part of the collateral for loans against which loans are provided may not reflect true value, which may impact the Manager's ability to recover on any loan in default.		
For a more detailed list of the key risks, refer to Section 10 "Investment Considerations and Risks" of the Information Memorandum.			

## Fund Overview

The AVARI Private Loan Income Fund (“the Fund”) is an open-ended unlisted, unregistered fund which invests in a portfolio of credit loans, backed by secured mortgages on properties. The Fund is managed by AVARI Capital Partners (“the Manager”) and AVARI Capital Holdings Pty Ltd (“the Trustee”), which are wholly owned subsidiaries of AVARI Capital Partners. AVARIA Capital Partners was established in 2014 as a property and real estate debt investment manager and currently has over \$1.0 billion of assets under management, which includes office, industrial and residential properties. Since 2016, AVARI has provided over \$300 million of loans and has maintained a 100% preservation of investor capital on all funds. The Directors and employees of AVARI currently hold around 3.4% of the units in the Fund, on the same terms and conditions as ordinary investors, providing and alignment of interest.

The Fund was established in May 2021 and has delivered a total return of 10.8% p.a. since inception.

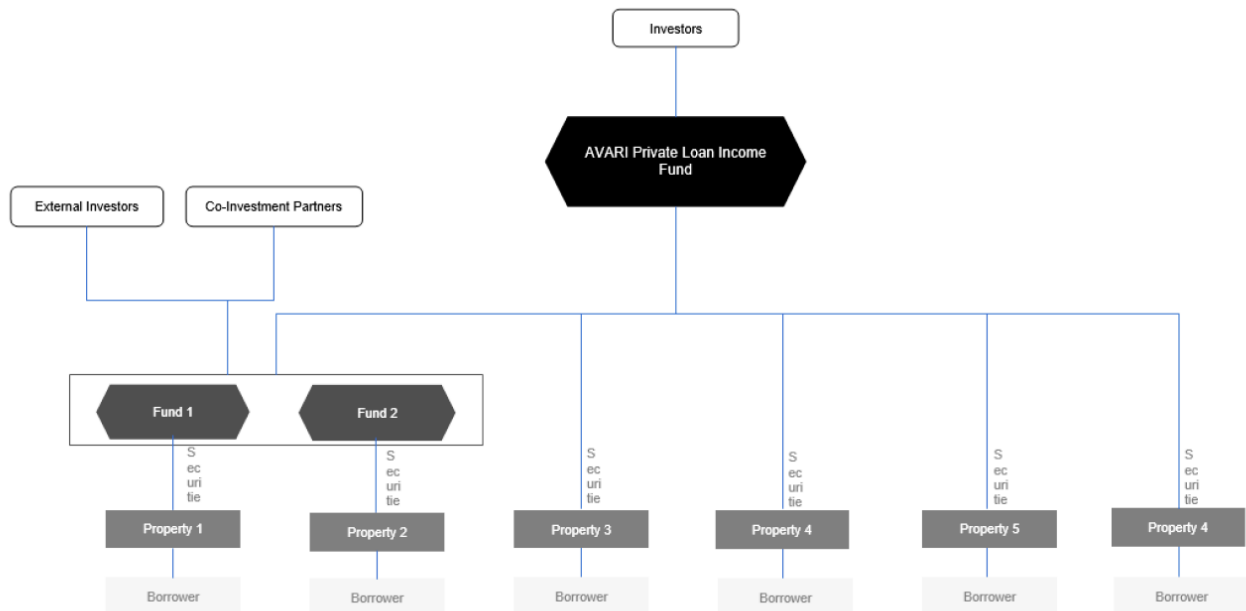
The Fund is open-ended and available to wholesale investors with a minimum investment of \$50,000. Investors may subscribe for units on a monthly basis, with the current unit price of \$1.00 per unit. Investor’s funds are pooled together and loaned directly to borrowers. The Fund may also invest indirectly in an AVARI managed loan fund by acquiring units in the fund as well as cash and cash like products. Following the maturity of the underlying investment loans, the principal loan amount is repaid, and the proceeds are able to be recycled into new loans.

The Fund receives interest payments from the loans and, after deducting management fees and expenses, distributes the net proceeds to investors. The Manager is currently targeting the Fund to deliver distributions of 9.0% p.a. paid by way of monthly distributions.

The Fund holds a portion of the portfolio in cash to pay interest to investors, provide liquidity and to facilitate new loan investments each month.

A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: AVARI

## Investment Strategy

The Fund invests in loans which are secured by real property which have either a first or second ranked mortgage. The Fund may provide the loan directly to the lender, or the Fund may acquire units in another fund which provides the loans. For liquidity and cash flow purposes, the Fund may also invest in cash, short term deposits or listed lending vehicles backed by property.

The Fund has a target return of 9.0% p.a. (net) for investors. The Manager aims to find loans which have an attractive risk/reward profile, rather than simply higher yielding deals. The Fund does not have a bias to any particular type of loan and will typically see every major deal in the market and select those that offer the best risk/reward available.

## Lending Guidelines

The Manager adopts a set of lending guidelines which it uses to monitor the performance of the portfolio. It should be noted the Manager adopts a set of guidelines which includes concentration limits for the loan portfolio. The concentration limits are a guideline and, from time to time, the loan portfolio may temporarily move outside the concentration limits based on the expiry profile of the loans.

Figure 2: Loan Portfolio – Key Features

Key Features	
Target return	<ul style="list-style-type: none"> <li>9.0% p.a. (target)</li> </ul>
Loan amount	<ul style="list-style-type: none"> <li>The Fund is not limited by deal size however the current portfolio consists of loans up to \$15M in size.</li> </ul>
Loan Term	<ul style="list-style-type: none"> <li>Loans are typically for a term of 6 months to 24 months.</li> </ul>
Interest	<ul style="list-style-type: none"> <li>Interest rate is determined on a case-by-case basis for each loan, taking into account the risk of the loan/borrower and prevailing market rates.</li> </ul>
Security	<ul style="list-style-type: none"> <li>Loans will be secured by a first or second mortgage over the property.</li> <li>The Fund may also seek other security including a personal guarantee from the borrower.</li> </ul>
Asset / Deal Type	<ul style="list-style-type: none"> <li>Commercial and residential properties</li> <li>Uses may include land, construction, subdivision, bridging finance and residual stock.</li> </ul>
Loan to Valuation Ratio (LVR)	<ul style="list-style-type: none"> <li>The maximum Portfolio Loan To Value Ratio (LVR) will not be higher than 65.0% on a weighted average basis for the portfolio, with a maximum LVR of 80% for any one individual loan.</li> </ul>
Valuation	<ul style="list-style-type: none"> <li>All loans to be supported by an independent valuation report by an approved valuer of the Fund.</li> <li>The Fund has a panel of 3 main valuers which are recognised, national valuation firms.</li> <li>Valuations reports are paid by the borrower and are not charged to the Fund.</li> </ul>
Risk Assessment	<ul style="list-style-type: none"> <li>All loans are reviewed and assessed through a 3-stage process which includes the Loans Team, Due Diligence Team and Investment Committee (with Independent Chairman).</li> </ul>
Concentration Limits	<ul style="list-style-type: none"> <li>A maximum of 15% of the total portfolio to be invested in any one loan.</li> <li>A maximum of 20% of the total portfolio to be invested in any one borrower.</li> <li>No region will have more than 33% of the total FUM. A region is defined as any suburb, town or locality.</li> <li>No more than 5% of the portfolio will be invested in second ranked mortgages.</li> </ul>

Source: AVARI

## Loan Approval Process

The Manager undertakes an extensive review process for each loan, which is summarised in the table below.

Figure 3: Loan Approval Process

Loan Approval Process	
Sourcing of loans	The Manager has an extensive network to source deals from brokers, referrers as well as through direct relationships with developers. An initial assessment of the loan is undertaken by the Originations Team.
Preliminary Assessment	The Originations Team undertakes a preliminary assessment based on existing market knowledge of the underlying property and its property risk and the borrower. All loans are assessed with a focus on recoverability and are stress tested under different scenarios with each scenario reviewed to ensure there is sufficient downside protection. The assessment takes into account a set of criteria which includes the security, the type of property and the risks associated with the property, the loan to valuation ratio and evidence of the capacity to service the loan and repay on time.
Request For Information	The Due Diligence Team makes independent contact with the borrower with a Request For Information (RFI) list which sets out the information required to process the loan.
Due Diligence	<p>The Due Diligence Team reviews the information from the RFI process to ensure it is accurate and complete as well as to review for any other issues and risks that need to be addressed in the DD process. The review includes information provided by the borrower as well as information independently sourced by the Due Diligence Team. The Due Diligence includes a review of:</p> <ul style="list-style-type: none"> <li>○ <u>Security/Asset Risk</u> – an assessment of the property, including title searches, physical inspections, valuation and building reports, project plans, council searches including DA submissions, competitor risks, safety and environmental checks. The property and location checks are also reviewed by the property team of AVARI.</li> <li>○ <u>Borrower Risk</u> – a credit check of the borrower and personnel, including financial checks, the track record and experience on similar property transactions. A review is also undertaken of other personal assets that is used as support for the loan. The review includes the cash flows of the borrower. The review includes a review of any guarantees provided by the borrower.</li> <li>○ <u>Exit Scenarios</u> – the exit strategy is reviewed, including sales risks, market dynamics, project timelines, DA details, loan valuations, loan covenants, recovery process, feasibility and construction costs, market analysis and refinance options.</li> <li>○ <u>Financial Analysis</u> – a forecast monthly cashflow and profit and loss statement is undertaken based on the Due Diligence team’s assumptions. Scenario analysis is undertaken on different default scenarios, including a breakeven analysis for the loan.</li> <li>○ <u>Loan Covenants</u> – the Manager will require specific loan covenants to be in place, for example construction timelines and sales targets which will be tested regularly to monitor the performance of the borrower and provide a basis for the Fund to step in if required.</li> </ul> <p>The Due Diligence Team consists of 4 team members and operates separately to the sourcing team to ensure all risks are reviewed. The Due Diligence Process will take from 2-5 weeks depending on access to information, any issues discovered and complexity of the deal.</p>
Investment Committee Review	The complete Due Diligence Pack is submitted to the Investment Committee for approval. The Investment Committee consists of an Independent Chairman (Mr Peter Barnes) and five executives from AVARI. The Investment Committee will assess the loan for approval, including whether any further conditions are required.
Approval	A formal offer is made to the borrower with terms and conditions. Once accepted by the borrower, the loan is legally documented by one of the Fund’s panel of lawyers. The Manager is responsible for the ongoing monitoring of the loan, which includes providing updates to the Investment Committee in relation to both individual and portfolio loan performance, including in respect of payment and collection of interest and compliance with loan covenants and conditions.
Documentation	<ul style="list-style-type: none"> <li>○ All loans loan agreements are completed by an external law firm.</li> <li>○ The Manager uses a panel of 3 national law firms to document loan agreements. The legal costs of a loan are paid for by the borrow and are not charged to the Fund.</li> </ul>
Loan Monitoring	Following loan execution and drawdown, the investment team will monitor the loan, covenants and interest payments to ensure the terms and covenants are not breached. The team conducts monthly checks on loans, including any loan covenants, construction and sales progress, the borrowers’ credit quality, as well as property inspections where necessary.

Source: AVARI

In the event of a default, the Manager is responsible for default management and commencing recovery action against the defaulting borrower. All default interest payments are paid to investors in the Fund, after the deduction of costs associated with managing the default. Historically, the Fund has had one default on a loan, however AVARI was able to recover the full loan amount within 3 months including interest payments (with default interest) being fully repaid. Where a loan has not been repaid on the due date, it is in ‘technical default’ and default interest is charged. The default interest is paid to investors in the Fund, after a deduction for costs. The Manager has advised that the Fund has not had a capital loss on any loan since inception in May 2021.



## History of the Fund

The Fund was established on 1 May 2021 as an unlisted managed investment scheme offering investors the opportunity to gain exposure to a portfolio of loans secured by first and second ranking mortgages. Since 2021 the portfolio has grown to \$117.1M consisting of \$94.2M in loans and \$22.9M of cash.

The Manager has confirmed the Fund has maintained a 100% preservation of capital, with the unit price being maintained at \$1.00 per unit since inception. In all cases where there has been a default or technical default (e.g. due to a late payment of interest or principal), the Fund has recovered 100% of the capital plus interest, including default interest. All default interest has been passed on to investors in the Fund, less costs. Since inception, the Fund has increased to a portfolio of 13 active loans. The table below provides a history of the loan portfolio.

Figure 4: Fund History

Key Metrics	Fund Inception 1 May 2021	June 2021	June 2022	June 2023
Loan Amount		\$1.0M	\$81.2M	\$94.2M
Cash		-	\$2.9M	\$22.9M <sup>2</sup>
<b>Total Portfolio</b>		<b>\$1.0M</b>	<b>\$84.1M</b>	<b>\$117.1M</b>
Number of Loans <sup>1</sup>		3	13	13
Loan Exposure		\$0.3M - \$0.5M	\$0.4M - \$9.3M	\$0.8M - \$15.0M
<b>Loan to Value Ratio (LVR)</b>				
Portfolio LVR (excl cash)		30.2%	58.8%	41.7%
Portfolio LVR (incl cash)		30.2%	56.8%	51.8%
LVR Range		49% - 69%	38.8% - 75.0%	19.8% - 77.0%
<b>Security</b>				
First Mortgage		100%	99.4%	99.4%
Second Mortgage		0%	0.6%	0.6%
<b>Loan Type</b>				
Land - Residential			51.8%	56.5%
Land - Industrial			7.5%	5.5%
Subdivision - Residential		38.5%	21.8%	3.2%
Subdivision - Industrial			0%	15.9%
Construction - Residential		61.5%	18.9%	9.0%
Construction - Industrial			0%	0%
Residual Stock - Residential			0%	9.9%
<b>Location</b>				
NSW		38.5%	26.2%	52.1%
VIC		61.5%	60.1%	32.5%
QLD			13.8%	15.1%

Note 1: Loan Exposure based on the Fund's share. Note 2: Consisting of a \$9.6M pending loan and \$13.3M in cash. Source: AVARI

## Distribution History

The Fund charges monthly interest on loans and passes this on to investors after deducting a management fee and expenses. The interest rate is different for each loan and, as such, the monthly interest that is passed on to investors may vary from month to month. The following is a summary of the monthly distributions paid by the Fund since inception.

Figure 5: Distribution History (in cents per month per unit)

Cents per unit	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	-	-	-	-	0.66	0.67	0.77	0.92	1.24	1.29	1.14	1.14
2022	0.94	0.71	0.85	0.80	0.85	0.77	0.82	0.82	0.76	0.75	0.76	0.84
2023	0.91	0.69	0.80	0.81	0.81	0.77						

Source: AVARI

## Unit Pricing

The Fund has a current unit price of \$1.00 per unit, as at the end of June 2023. The Manager has advised that the Fund has not had a capital loss and has maintained a unit price of \$1.00 per unit since inception.

The unit price is calculated on a monthly basis and takes into account the Net Asset Value of the Fund divided by the number of units on issue. The calculation is undertaken on an ex-distribution basis, following the payment of the monthly distribution. Investors who purchase units will be allocated the units on this date and will be entitled to the following months distributions.

Investors should be aware that debt funds, by definition, are exposed to a loss of capital if the Fund is unable to fully recover the principal loan amount. Any loss of capital may impact the Unit Price of the Fund.

## Liquidity / exit strategy

The Fund provides the opportunity to redeem or withdraw an investment on a monthly basis at the Trustee's discretion. Withdrawal requests are funded out of the Funds available cash reserves. Withdrawal requests are processed on a monthly basis. The Manager has advised that, since inception, the Fund has met all withdrawal requests within the stated timeframes.

- Withdrawals require a minimum notice period of one-month. For example, a withdrawal request received before 31 May will be processed on 1 July. Investors will be advised on the 15th of the month how much of their redemption will be paid out on the 1<sup>st</sup> of the next month.
- All withdrawal requests are subject to the liquidity of the Fund. The Trustee may, at its discretion, apply a pro rata basis to the withdrawal request. Any withdrawal request not fulfilled will be automatically rolled over and considered by the Trustee in the following month.
- Withdrawal requests will be processed based on the unit price on the first of the month and will be entitled to the distributions of the previous month.

## Fees Charged by the Fund

The fee structures in the mortgage and property funds industry vary widely depending on the fund style, the underlying structure of a fund, and the complexity of the product. In a few instances, investors are charged no fees, but a fund might disclose just the net return per annum to investors. In such cases, the Manager effectively takes the spread between what the borrower pays and what is paid to investors. In other instances, Managers charge transactional costs to the investor and in other instances, transactional costs are charged to the borrower. As such, it is difficult to provide a meaningful analysis of the Fund's fee structures in relation to industry averages.

Core Property considers the fee structure to be appropriate for the nature of the Fund. This is based on:

- A Management Fee of 0.50% p.a. of the capital invested in the Fund. The Fund receives all interest charged to the borrower, after deducting the Management Fee and Expenses (which are charged at cost).
- Where the Fund invests in units in a related AVARI fund, the Fund will receive a rebate for the share of the Management Fees charged by the underlying fund. This is done to avoid a doubling of fees charged to investors.
- The borrower may also be charged a Debt Establishment Fee (typically 1% - 2%) and a Development Management Fee (if the Fund exercises its step-in rights to acquire a property). In such cases, the fee is paid directly by the borrower to the Manager at commercial rates.

A summary of the fees and expenses is provided.

Figure 6: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry Fee/ Application Fee	Nil	In line with industry practice.
Withdrawal Fee	Nil	In line with industry practice.
Management Fee	0.50% p.a. (net of GST) of the capital invested in the Fund.	Core Property considers the fee to be appropriate. The Fee is paid out of the net assets of the Fund at the end of each month when there is a distribution. Where the Fund invests in a related AVARI Sub Investment Fund, the Manager will rebate the management fees of the Sub Investment Fund to avoid duplication of fees.
Other fund Expenses	All reasonable costs and expenses incurred by the Fund will be paid out of the assets of the Fund	All reasonable costs related to the establishment, operation, administration, marketing and distribution of the fund. The actual costs are paid out of the assets of the Fund. Core Property considers this to be appropriate and in line with industry practice.
Debt Establishment Fee	Any Debt Establishment Fee is paid directly by the borrower to the Trustee.	The Fee is paid directly by the borrower to the Trustee to cover the costs of sourcing the loan. This is in line with what Core Property has seen in funds of similar nature.
Development Management Fee	If the Trustee exercises any step-in rights under a loan, the Manager may be entitled to a development management fee at commercial rates.	The Fee is not paid by the Fund but is paid separately by the borrower to the Trustee.
Performance Fee	Nil	The Fund does not charge a Performance Fee. Core Property considers to be appropriate for the type of Fund.

Source: AVARI

## Loan Portfolio

The Fund currently has \$117.1M of assets with \$94.2M deployed in mortgages and \$9.6M allocated for a pending loan as at 30 June 2023. The total loan book is held across 13 loans with various interest rates structures based on the risk. Distributions for June 2023 was 0.7658 cents per unit, equivalent to an annualised rate of 9.2% p.a., which is above the Fund's targeted 9.0% p.a. The weighted average LVR is 51.8% on the loan portfolio, or 41.7% including cash. The weighted average expiry is 6.5 months.

At the end of June 2023, the Fund had allocated \$9.6M of its cash for a pending new loan, with a further \$13.3M in remaining cash. The pending loan was subsequently settled in July 2023. The Manager has advised that it continues to examine opportunities to deploy the Fund's capital in accordance with the Fund's investment strategy.

The portfolio metrics are expected to change each month as loans reach expiry and new loans are established.

Figure 7: Fund Portfolio – as at 30 June 2023

Description	State	Type	Mortgage	Maturity	Loan Balance	Structure	Interest Rate	LVR
Loan 1	VIC	Land – Residential	First	Jul 23	\$5.6M	Direct	9.0%	52.1%
Loan 2.1	NSW	Construction - Residential	First	Aug 23	\$3.8M	Direct	Line 2.9%+ Interest 6.5%	56.4%
Loan 2.2	NSW	Construction - Residential	Second	Aug 23	\$0.6M	Indirect	29.5%	62.9%
Loan 3	QLD	Land – Industrial	First	May 24	\$4.4M	Direct	30-day BBSY + 8.5%	58.8%
Loan 4	NSW	Subdivision – Industrial	First	Oct 23	\$15.0M	Indirect	Line 1.5%+ Interest 7.0%	49.2%
Loan 5	VIC	Subdivision – Residential	First	Mar 24	\$3.0M	Indirect	9.0%	19.8%
Loan 6	VIC	Land - Residential	First	Jun 24	\$9.3M	Direct	9.0%	64.0%
Loan 7	VIC	Construction - Residential	First	Jul 23	\$4.1M	Direct	10.5%	71.8%
Loan 8	QLD	Land - Residential	First	Sep 23	\$10.1M	Direct	9.7%	43.5%
Loan 9	VIC	Land - Residential	First	Oct 24	\$8.7M	Direct	30-day BBSY + 9.0%	61.3%
Loan 10	NSW	Residual Stock - Residential	First	Jan 24	\$9.3M	Direct	30-day BBSY + 8.25%	54.2%
Loan 11	NSW	Land - Residential	First	Mar 24	\$12.0M	Direct	30-day BBSY + Line 3.50% + 4.75%	54.6%
Loan 12	NSW	Land - Residential	First	Mar 25	\$7.6M	Direct	30-day BBSY + 6.0%	31.2%
Loan 13	NSW	Land – Industrial	First	Dec 24	\$0.8M	Indirect	30-day BBSY + 5.5%	38.3%
<b>Total Loans</b>				<b>6.5 months</b>	<b>\$94.2M</b>			<b>51.8%</b>
Allocated for pending loan <sup>1</sup>					\$9.6M			
Cash					\$13.3M			
<b>Total (incl cash)</b>				<b>6.5 months</b>	<b>\$117.1M</b>			<b>41.7%</b>

Note 1: Pending loan for \$9.6M was subsequently settled in July 2023. Source: AVARI

## Diversification

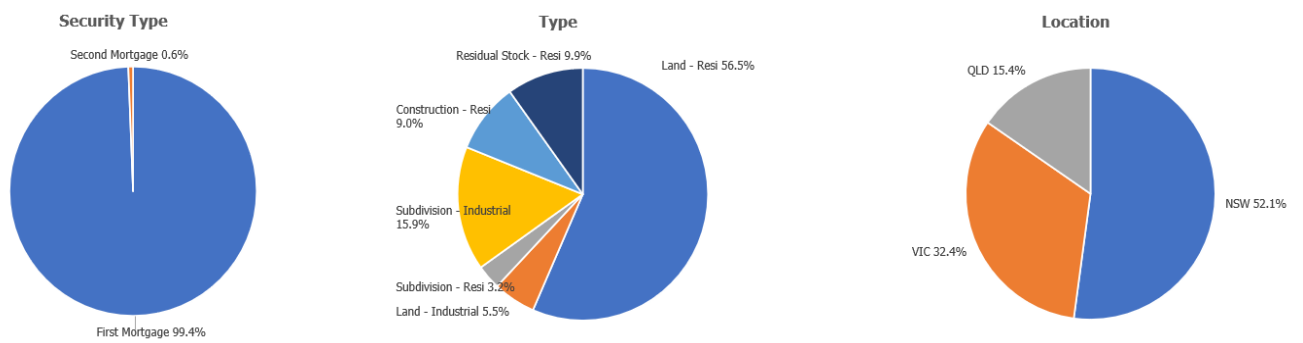
The portfolio is predominantly focussed on loans with a First Ranked Mortgage (99.4%). The Fund currently has one loan for a Second Ranked Mortgage for \$0.6M, which was undertaken in conjunction with a First Ranked Mortgage loan. In the past 2 years, this is only the second time the Fund has held a Second Ranked Mortgage loan, with the previous time being a \$0.5M loan.

The current portfolio has a focus on loans for land (62.0%) and subdivision (19.1%) compared to construction (9.0%) and residual stock (9.9%) loans.

The Fund is focussed on loans on the eastern seaboard of Australia with a current allocation to NSW (52.1%), VIC (32.5%) and QLD (15.4%).

Core Property notes the Fund was established in May 2021 and expects the diversification metrics to improve as the portfolio size increases over time.

Figure 8: Portfolio Diversification



Source: AVARI

## Management & Corporate Governance

### Background of the Manager

AVARI Capital Partners is a property fund manager and real estate debt provider. The business was established in 2014 and manages over \$1.0 billion of assets across residential and commercial properties. AVARI has an in-house property team that includes sales and leasing professionals, architects, analysts, project managers and interior designers. The team is experienced in property development, lending, acquiring and managing real estate assets in Australia which provides a broad access to deals.

The management and staff of AVARI also invest in every fund alongside investors, providing an alignment of interests. AVARI has a strong track record and has not made a loss on a loan investment for investors since inception. The Fund is managed by a team with complementary experience in financial markets, property and investments. The key management personnel are provided in the table below, with additional team members located in Sydney and Melbourne.

Figure 9: Board and Management

Name & Role	Experience
<b>Peter Barnes</b> Non-Executive Director and Chair of the Investment Committee	Peter has over 36 years' experience across the property and lending industry. Apart from acting as Chair of AVARI's investment committee Peter also currently acts as the Chair and Independent Board Director of Charter Hall Investment Management Limited. Since 2006, he is also the Chairman of Real Estate at PPB Advisory, Non-Executive Director of Heathley Asset Management Limited, Non-Executive Director of the Valad Core Plus Fund and a member of the Advisory Board for Taylor Constructions. Peter's experience includes 5 years with the Commonwealth Bank of Australia as Executive Vice President and Head of Property Lending, 6 years with Lend Lease as its Internal Auditor and Operations Manager and 20 years as a Director and Managing Director of CRI Australia Ltd. Peter's role at AVARI includes being head of the investment committee for the Private Loan Income Fund & AVARI Group. Peter holds a Bachelor of Commerce Degree from the University of NSW and is a fellow of the Australian Property Institute and a Fellow of the Royal Institution of Chartered Surveyors.
<b>Alan Liao</b> Managing Director & Investment Committee	Alan Liao is the founder and Managing Director of AVARI Capital Partners. Alan has over 15 years of experience in financial market and capital management. Alan began AVARI Capital Partners in 2014. Prior to this, he was working in Investment Banking at CITI Bank. Alan's total deals at AVARI exceed \$2B. Alan is experienced in investment sourcing, portfolio management and repositioning. Alan has also completed numerous residential developments. Alan's role at AVARI Capital Partners includes overseeing the Deal Team and assisting with the Investment Due Diligence. For the Private Loan Income Fund specifically, Alan is involved in the origination and execution of the deal terms and structure. Alan holds both a Bachelor of Commerce and Information Systems from Monash University. Alan also holds an Honours Degree majoring in finance from Sydney University.
<b>Margaret Li</b> Managing Director & Investment Committee	Margaret Li is a Managing Director at AVARI Capital Partners. Margaret has over 20 years of experience in funds management and property-related financial control. Prior to joining AVARI Margaret was a Group finance manager at Vicinity Centres. Margaret's role for the AVARI Group includes controlling the financial and compliance divisions. Margaret has been pivotal in over \$2B worth of transactions at AVARI. Her role in the Private Loan Income Fund Encompasses all aspects from fund control through to investment management. Margaret holds a bachelor's degree in Economics from Fudan University, is a Chartered Accountant and took an MBA course with AGSM.
<b>Isolde Chen</b> Managing Director/ Investment & Investment Committee	Isolde Chen is the Head of the Investment Team. Isolde has over 7 years of experience in funds management. Isolde specialises in investment models, asset valuation and holding structures. Her investment due diligence experience exceeds a total asset valuation of \$2B. Isolde's role in the private loan income fund is to manage the transaction and due diligence process. Isolde and her team will conduct a strict DD checklist on each facility before presenting their finding to the investment committee. Isolde is a Chartered Financial Analyst Level III qualified member. She holds an Undergraduate from Warwick Business School where she also holds a BSC in Accounting and Finance. Isolde also holds a Mcomm in Banking and Quantitative Finance.
<b>Terence Lai</b> Managing Director/ Property & Investment Committee	Terence is the Head of Property for AVARI Capital Partners. Terence has over 20 years of experience in Project Management and Architecture. Prior to AVARI Terence was the National Design Manager for Hungry Jacks Australia. Terence is involved in both the due diligence process and value add initiatives. Terence has an extensive understanding of all aspects of development which makes him an integral part of the due diligence process. For the Private Loan Income Fund, Terence assesses the risks of a project by putting himself in the shoes of the developer themselves using his 20 years of experience in project management. Terence holds a Bachelor of Architecture from the University of New South Wales and is a member of the Architects Registration Board of NSW.
<b>Simon Riordan</b> Managing Director/ Distribution & Investment Committee	Simon Riordan is the Head of Distribution at AVARI Capital Partners. Simon has over 20 years of experience across equities, derivatives, fixed income and real estate. Simon looks after the capital raising for AVARI Capital Partners including the Private Loan Income Fund. Simon has worked with investors across all categories including HNW, Private Wealth Advisors, Family Offices, and some of the largest Institutions in the world. Prior to AVARI Simon was a senior investment and advisory professional at Macquarie Bank, AMP, CBA and Westpac. Simon has a Bachelor of Commerce and Arts from Sydney University Simon also has a diploma in financial planning and is a qualified ASX derivatives advisor.

Source: AVARI

## Investment Committee

Each property credit transaction requires unanimous approval by the Investment Committee for inclusion in the Fund. The Investment Committee consists of the Independent Chairman and the Executive Team of AVARI. Each member has experience in property and lending markets in Australia. As part of the submission of the loan to the Investment Committee, the loan will also be assessed and reviewed by the AVARI Due Diligence Team.

## Related Party Transactions

The Fund adheres to a Related Party Transactions Policy which is reviewed by an external independent compliance professional.

The Manager and the Trustee are related parties and wholly owned subsidiaries of AVARI.

As an open-ended fund, the Fund may from time to time enter into transactions with related parties, in particular:

- the Fund invests in other AVARI managed debt funds. In such cases, the fund receives a rebate of fees to ensure there is no double charging of management fees.
- The Manager receives a debt establishment fee, which is paid directly by the borrower to the Manager. The debt establishment fee typically ranges between 1% - 2% of the loan amount.
- The Manager may receive a fee for the management of a loan in the event of default. This is charged at commercial rates.
- The Manager is also reimbursed for costs relating to the running of the Fund.

## Past Performance

The Manager has demonstrated a successful track record of sourcing, executing and managing credit transactions in the property sector.

Since the Fund inception in 2021 it has delivered a return of 10.79% p.a. and has maintained a 100% preservation of capital for investors.

Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

## Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

**It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.**

### The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

This report has been commissioned, and, as such, Core Property has received a fee for its publication. Under no circumstances has Core Property been influenced, either directly or indirectly, in making statements and / or recommendations contained in this report.



## Disclaimer & Disclosure

Core Property has received a fee from the Manager for researching the product(s) which has then been subject to a detailed review and assessment by Core Property and its analysts to produce this report. In compiling this report, Core Property's views remain fully independent of influence or conflicts of interest. Our team of analysts undertake an objective analysis of the offer and conclusions are presented to senior officers for review.

The company specified in the Report (the "Participant") has provided Core Property with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that Core Property believes are reliable, no responsibility or liability is accepted by Core Property for any errors, omissions or misstatements however caused.

Any opinions, forecasts or recommendations reflects the judgement and assumptions of Core Property as at the date of publication and may change without notice. Core Property and the Participant, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.

This publication is not and should not be construed as, personal financial product advice, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information (general financial product advice) only. Neither Core Property nor the participant is aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives. Investors should obtain a copy of, and consider the PDS/ Information Memorandum, which can be obtained by contacting the issuer.

This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Core Property. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. Core Property and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. Core Property and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

Core Property discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any). However, under no circumstances has Core Property been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.coreprop.com.au/Public/Disclaimer>.

For more information regarding our services please refer to our website [www.coreprop.com.au](http://www.coreprop.com.au).

