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Monark High Yield Debt Fund – Series 2 Quarterly Investor Update

31 March 2024

Please Note

Information contained in this investor update

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QUARTERLY INVESTOR UPDATE

Dear Investor

Welcome to the third quarterly update for the Monark High Yield Debt Fund (the Fund, Series 2).

Executive summary

The Fund is performing strongly, currently providing investors with an annualised Internal Rate of Return - from inception to reporting date - of 16.8%. Deployment continues to progress well.

The Fund made a 15 cents per unit capital call in January bringing total capital called to 42 cents per unit.

Two new facilities were added to the Fund's portfolio: The Watson, Essendon and Kallara House, Parkdale. As usual, we provide further details for each project later in this update.

We expect to make a further capital call of 18 cents per unit in May, pending the successful conclusion of two facilities currently in the final stages of due diligence. This will bring total funds called to 60 cents per unit.

We continue to remain cautious in what we believe will prove to be an extended period of uncertainty and market fragility. It has now become clear that the easy yards to reducing inflation are now behind us, and that the "last mile" is proving more difficult than expected.

We have consistently made the case for interest rates remaining "higher for longer", an environment which, we believe, presents a compelling case for an increased allocation to secured private debt in investor portfolios. We expand on our thinking in the Investment Environment section of this note.

We hope you enjoy reading this report and continue to remain engaged with the progress of your investment in the Fund.

Investment environment

We continue to pay particular attention to three key themes which we believe have significant implications for investors looking to grow and protect their wealth: the course of interest rates, the valuation of investment assets, and the accelerated issuance of unproductive debt.

In this piece we will update our views on our first theme: the expected course of interest rates.

Interest rates – higher for longer

We have consistently maintained the position that interest rates will remain higher for longer.

Many commentators seem to believe that current interest rate levels are simply a result of monetary policy set in response to prevailing inflation. That the imposition of higher interest rates will soon bring inflation to heel. After which rates will be cut, with a return to business as usual.

With regards to taming inflation. We observe that commentators and markets got overly excited with some positive initial progress. This early success was mainly due to the untangling of global logistics systems leading to deflation (negative inflation) of both the price of goods, and the cost of transporting them.

The true test was always going to involve *services* inflation, primarily driven by remuneration hikes and an unwelcome drop in productivity. With tight global labour markets, and workers looking to recoup some purchasing power, remuneration increases have caused the downward move in overall inflation to pause, and to recently reverse.

Let's explore this last comment more carefully.

After several years of inflation, most consumers are now well behind the eight ball – and are feeling it. The cost-of-living crisis has become *the* major issue in the run up to November's US elections. And it is showing in President Biden's polling numbers. No amount of rhetoric can make a paycheck go further.

QUARTERLY INVESTOR UPDATE

In a recent article in The Australian, we read, “Many costs – mainly necessities such as food, fuel, houses and insurance – have jumped more than 25 per cent in the four past years.

“Service costs that have climbed the most include insurance (up 35 per cent), domestic holidays (up 28 per cent), and veterinary services (up 26 per cent). Medical and hospital services (rose) 21 percent.”

THE AUSTRALIAN

Economists seem to be missing the problem. Are they expecting workers to willingly accept remuneration increases at today’s inflation rate (3.6 per cent)? Because this increase will in no way compensate for the higher inflation we have just experienced. Economists (and some others) assume that a large number of workers will accept a permanent drop in their standard of living.

We doubt this is a realistic outlook and therefore remain of the view that upward pressure on employment costs will persist, and that bringing inflation back to target will be both harder - and take longer - than anticipated.

Ever-greater debt issuance

Running fiscal deficits now seems ingrained in many Western nations (ironic in the face of tighter monetary policy). Their need to issue ever-greater amounts of debt is starting to choke buyers. The US is the poster child with a jaw-dropping 6% deficit to GDP, equivalent to a lazy $1.5 Trillion in 2024. Corporations are in it too. Deutsche Bank estimates buybacks (the purchase and retirement of issued shares, done to boost earnings per share) could rise to $1 Trillion this year. Whilst some businesses will use accumulated profits to do this, most will likely raise debt.

Someone has to buy all these government and corporate IOUs. But buyers are now exhausted. The most obvious being China, no longer an enthusiastic purchaser of US federal debt. Sovereign debt markets are showing signs of instability: witness the Bank of England’s intervention in September 2022 (on the back of then Prime Minister - Liz Truss’s - proposal to cut taxes and resort to more borrowing), and the Fed’s rescue of several US banks in March 2023 whose solvency was ruined by spiking bond yields.

With demand for funding running hot, and funding markets more skittish, borrowers will have to pay more.

QUARTERLY INVESTOR UPDATE

Higher neutral rate

The neutral rate is the goldilocks interest rate. The rate where inflation remains within target and where the economy operates at full employment (or at least at a politically acceptable level of unemployment).

For much of the decade following the Global Financial Crisis, many major industrial nations had a neutral interest rate below 1%. The US Fed rate, for example, was 0.25% from January 2009 to November 2016, and from April 2020 to March 2022. We could make mischief and suggest that inflation shifted from goods and services to financial assets and real estate. But we'll discipline our commentary and respect the integrity of the consumer price index.

It seems that there is a growing awareness that the new neutral rate will be considerably higher.

In a recent note to investors, wealth managers Evans & Partners – when assessing the US economy - opined that, "the neutral rate could be higher than we thought since rates at 5% have not slowed the economy".

What does this mean for investors?

Rate cuts have been aggressively priced into growth assets. And, to date, investors seem unwilling to accept the possibility of a higher-for-longer scenario. This belief has been fuelled by the mainstream commentariat who have been noisy cheerleaders, predicting, and then demanding, imminent rate cuts.

It's still early, but there seems to be a shift in the messaging, and a growing acceptance amongst some mainstream commentators that aligns with our views. Indeed, the AFR recently published Judo Bank's Chief Economic Advisor, Warren Hogan's, prediction of *three more rate hikes*. Hogan is no lightweight. Apart from being one of the most prescient forecasters over the last few years, his CV includes ten years as ANZ's Chief Economist.

A delay to the eagerly anticipated rate cuts sets up the possibility for considerable equity market volatility and a delay to any recovery in the value of commercial property.

We'll end this section echoing comments in our previous update.

Whilst we believe Monark's private debt facilities (whether through funds such as the High Yield Debt Fund, our Prime Credit Fund, or individual, co-investment opportunities) are attractive in all investment environments, we consider them particularly appealing in the current because:

- Higher rates tend to be an obvious plus for most debt investors,
- The contractual nature of each private debt facility, plus the collateral security of Australian real estate, provides secured private debt with a strong defensive character, and
- We don't need to have a view on inflation or future interest rates to deliver. We have the luxury of focusing on "the micro" (that is the projects we fund) rather than complex macro themes. The outcomes we achieve, and the returns we deliver, are predominantly under our control. They tend not to be subject to swings in sentiment and the prevailing narrative.

Fund notes

The Fund is performing strongly, currently providing investors with an annualised Internal Rate of Return of 16.8%. Deployment continues to progress well.

As at 31 March 2024, the Fund has a value of $16.7 million, $15.8 million of this is investor capital and $0.9 million accrued interest. The unit value is 44.4 cents per unit.

The Fund made a 15 cents per unit capital call in January. The proceeds of this call were applied to two new secured private debt facilities: The Watson, Essendon and Kallara House, Parkdale, whilst further capital was invested in several other existing facilities.

We expect to make a further capital call of around 18 cents per unit in May, pending the successful conclusion of two facilities currently in the final stages of due diligence. This will bring total funds called to 60c per unit.

Looking ahead

We anticipate continued positive progress by the Fund’s portfolio.

Today’s challenging environment favours lenders with the required expertise and experience. We describe Monark in conversations as a provider of “entrepreneurial capital”. By this we mean a financier who collaborates with borrowers to create an optimum, win-win, funding solution. Today’s environment has made Monark a funder of choice and continues to provide us with attractive opportunities to assess and to make available to our investors.

We take the responsibility of managing your investment with us seriously and thank you for partnering with us.

Key Metrics

$15.8M

Capital called

42%

Percentage capital called of total capital committed

10

Number of portfolio investments

18.4%

Projected IRR of the Fund's underlying committed portfolio

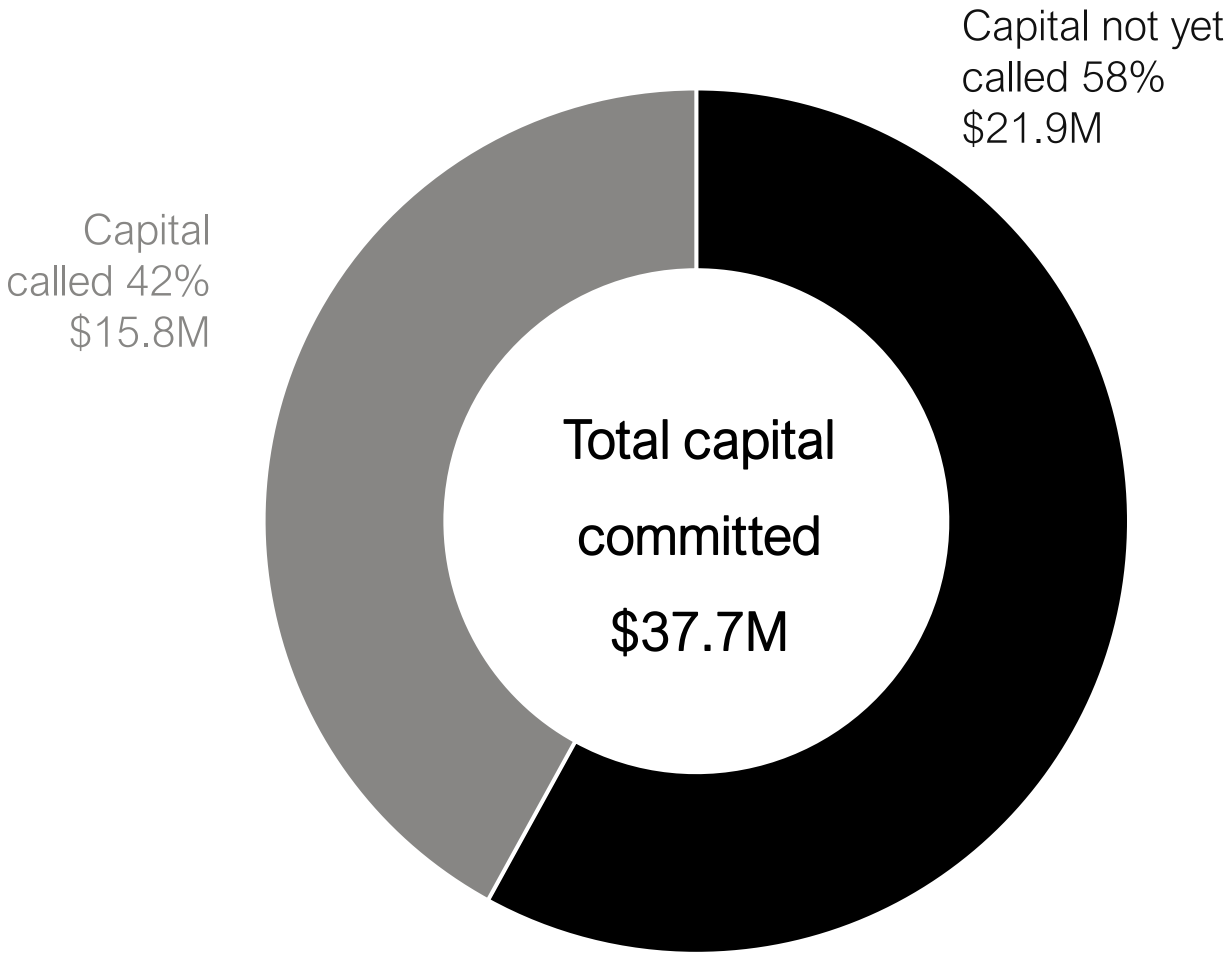
16.8%

Annual Fund IRR (net of fees and costs) from inception (1 August 2023) to reporting date, 31 March 2024

QUARTERLY INVESTOR UPDATE

Fund Capital

	Fund	Per unit
Total capital committed	$37.7M	$1.00
Capital movements		
Capital called – 1 January 2024	$10.2M	27c
Capital called during current quarter	$5.6M	15c
Capital repaid during current quarter	-	-
Net Fund capital – 31 March 2024	$15.8M	42c
Capital not yet called	$21.9M	58c



Fund Performance

The Fund's underlying committed portfolio has a projected IRR of 18.4% with the Fund currently returning an overall 16.8% net IRR to investors.

	Fund	Per unit
Capital called	$15.8M	42c
Capital repaid	-	-
Net Fund capital	**$15.8M**	**42c**
Net income distributed	-	-
Net income accrued	$0.9M	2c
Total net income	**$0.9M**	**2c**
Annual Fund IRR from inception (1 August 2023) to 31 March 2024 [1]	**16.8%**	

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

Detailed Investor Cashflows

Capital called

Date	Cents per unit
1 August 2023	12c
19 December 2023	15c
24 January 2024	15c
Total capital called	**42c**

Fund distributions

Date	Cents per unit
Total distributions paid*	**0**

*Investors' tax liability is determined by your pro rata entitlement to the income earned by the trust and is not necessarily related to the capital and income components of actual cash distributions. We expect to provide your Annual Tax Statement in early August.

QUARTERLY INVESTOR UPDATE

Unit Value

	Fund	Per unit
Net Fund capital	$15.8M	42.0c
Net income accrued	$0.9M	2.4c
Net asset value	**$16.7M**	**44.4c**

Series 2 Portfolio as at 31 March 2024

Facility	Amount deployed	Weighting
1. Rockpool, Rainbow Bay QLD	$2.7M	17%
2. The Wickham, Highett VIC	$2.6M	16%
3. The Watson, Essendon VIC	$2.4M	15%
4. Murray Street, Perth WA	$2.0M	13%
5. Bridport Street, Albert Park VIC	$1.8M	11%
6. Whitehorse Road, Deepdene VIC	$1.6M	10%
7. Point Nepean Road, Rye VIC	$1.0M	7%
8. Kallara House, Parkdale VIC	$0.9M	6%
9. Lakeside Estate, Greenvale VIC	$0.5M	3%
10. Land Subdivision, Deanside, VIC	$0.3M	2%
	$15.8M	**100%**

PORTFOLIO REVIEW

Rockpool, Rainbow Bay

154 Marine Parade, Rainbow Bay QLD

The project comprises 21 luxury apartments over 12 levels with three levels of basement providing 73 parking spaces. Communal amenities include a gym, sauna, outdoor showers, a swimming pool with a deck, and business facilities. The development has been designed to appeal to the premium end of the owner occupier market.

Key Information:

Developer	Joe Adsett Architects
Builder	Tomkins Commercial & Industrial Builders
Current Fund Investment	$2.7 million

Project Update

- The development site was purchased off-market in mid 2020, site demolishment occurred soon thereafter, and a display suite erected in August 2020.
- A planning permit was issued by the Gold Coast City Council in June 2021.
- 16 of the 21 apartments have been sold confirming the project's market acceptance.
- Construction commenced on 17 January 2023.
- All basement formworks have been completed and ground and level 1 formwork/pour have commenced.
- Installation of the stair core jump form is expected to commence in April.
- Practical completion for the project has been delayed to April 2025 (originally October 2024) due to approved Extensions of Time of 68 days and other non-compensable delays in the builder's program. The revised completion date remains within the facility term, ending in June 2025.

PORTFOLIO REVIEW

The Wickham, Highett VIC

248 Wickham Road, Highett VIC

A facility to fund the pre-development and construction costs of an industrial redevelopment in Highett, Victoria. The Property sits within an established and proven industrial and commercial precinct.

Key Information:

Developers	Bridport Projects and Unified Property Services
Current Fund Investment	$2.6 million

Project Update

- Financial Close occurred in December 2023.
- A soft-launch marketing campaign commenced in December 2023. Two unconditional sales on the strata warehouses were secured and one Intention to Purchase was signed in Q1 2024, all at prices above the original feasibility.
- An Agreement for Lease with the anchor tenant, Animal Emergency Centre, is progressing well with formal documentation expected to be signed in April 2024.
- Demolition of the site will commence in April 2024 following approval from the senior land financier (Police Credit Union).
- Design documentation is progressing with the preferred builder (C3 Constructions).
- In March 2024, the developers approved indicative commercial terms from Monark to provide a senior debt construction facility for the project.
- Targeting construction commencement in Q2 2024.

PORTFOLIO REVIEW

The Watson, Essendon VIC

995 - 1001 Mt Alexander Road & 1 Thorn Street, Essendon VIC

A facility to assist with the construction of a six-level building comprising 37 residential apartments and two retail shops over a two-level basement. The project is sponsored by an experienced developer with a track record of successfully delivering high-end residential developments in Victoria. The Watson targets owner-occupiers and is well positioned for downsizers in the Essendon/Moonee Ponds locality – evidenced by the high proportion of current purchasers who reside in the area.

Key Information:

Developer	Kincrest
Builder	Ireland Brown
Current Fund Investment	$2.4 million

Project Update

- Financial Close occurred in January 2024.
- Project construction, initially funded with developer equity, commenced in October 2023.
- The builder completed bulk excavation and shotcrete works in Q1 2024.
- The builder is currently progressing with basement precast panel erection and roof slab pours.
- Construction works are currently on program.
- 21 apartments, representing 57% of total residential stock, and one retail shop, have been presold. In addition, the remaining retail tenancy is underpinned by an executed Agreement for Lease with a leading suburban grocery chain.

PORTFOLIO REVIEW

Murray Street, Perth

503 Murray Street, Perth WA

A facility to assist with the acquisition, refurbishment and leasing of a modern office building located at 503 Murray Street, Perth. The property has large floorplates, four lifts and a five-star NABERS rating (only one of three in Perth), presenting an attractive location for both government and ASX-listed tenants. The property's owners will refinance the Monark facility with bank debt once leasing has achieved set milestones.

The loan represents a discount of 50% to replacement cost in a market where the vacancy rate for A-grade buildings of this quality remains tight.

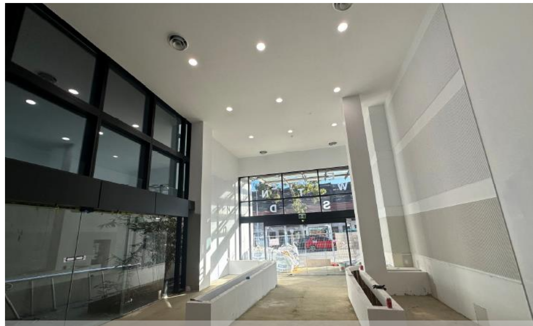
Key Information:

Owner	A syndicate managed by Properties & Pathways
Current Fund Investment	$2.0 million

Project Update

- Financial Close occurred in August 2023.
- The owner strategically acquired this A-Grade office asset as a value repositioning play.
- Major fitout works on level 6 (top floor) were completed in December 2023 with minor works undertaken throughout Q1 2024. A final clean was completed in March 2024.
- The refurbishment of the lobby and EOT (end-of-trip) facilities commenced in December 2023, in line with the program. The fitout contractor has experienced minor delays in these works and completion is expected in April 2024 (originally March 2024).
- Preliminary lease discussions across the building have been generally positive and the intention is to formally pursue these channels following completion of the lobby and EOT works.
- The owner has also completed general cosmetic upgrades throughout the building (e.g. installation of 429 new LED lights across all floors).

Completed level 6 break-out area



Lobby works underway.

PORTFOLIO REVIEW

Bridport Street, Albert Park

146–150 Bridport Street, Albert Park VIC

The developer has strategically acquired and amalgamated three sites to develop a 5-level mixed-use development comprising luxury apartments, all with basement carparking, to be constructed above office and retail areas. The project is located in a high-profile shopping strip in the blue-ribbon suburb of Albert Park. Designed by well-regarded architecture firm Cera Stribley. Monark is a shareholder in the project.

Key Information:

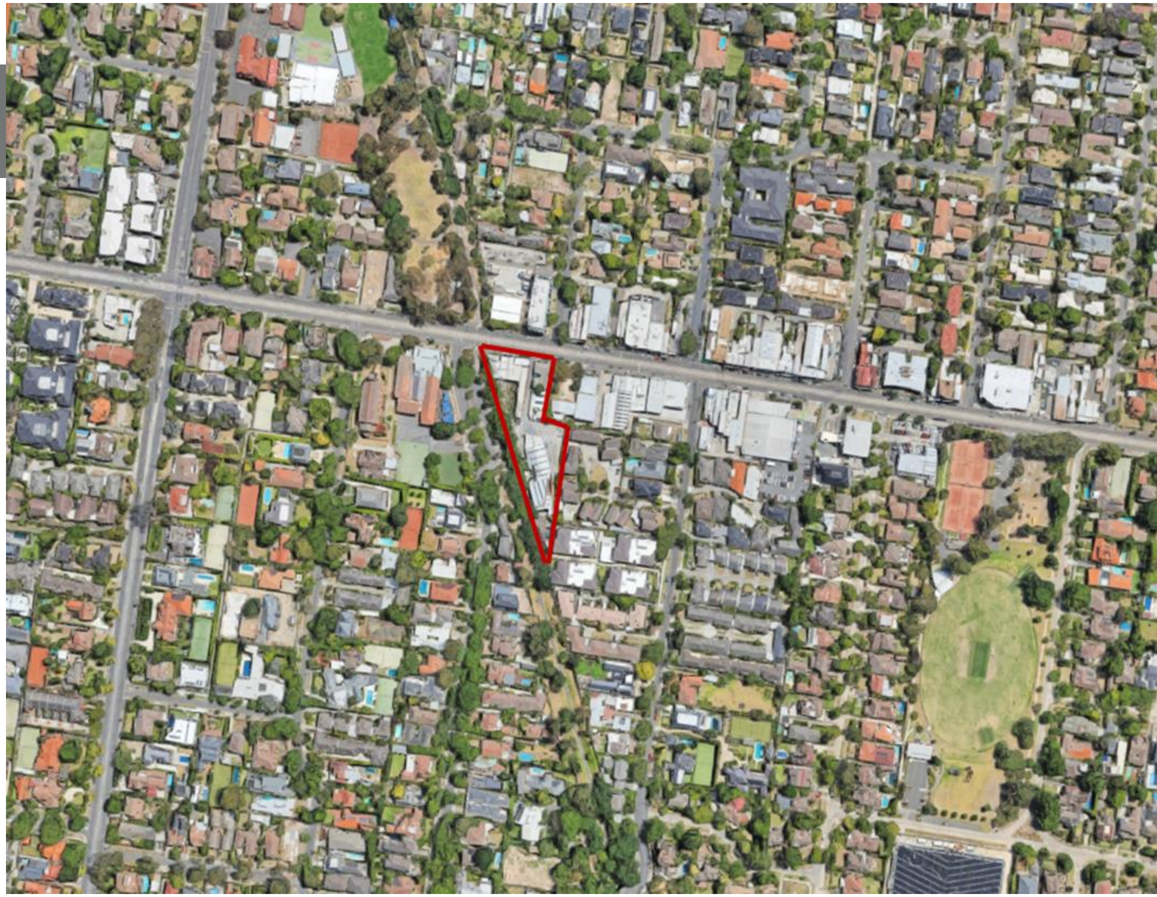
Developer	Jacmax Projects
Current Fund Investment	$1.8 million

Project Update

- A planning permit application was submitted in December 2022.
- A VCAT application was submitted in March 2023.
- An amended application was subsequently submitted post Compulsory Conference, proposing a reduced five-storey building. Council support was obtained based on the amended application ahead of the VCAT Hearing.
- The developer is awaiting VCAT decision following the completion of a hearing in March 2024.

PORTFOLIO REVIEW

Whitehorse Road, Deepdene VIC



18 – 30 Whitehorse Road, Deepdene VIC

The Property is located in a desirable location within the affluent suburb of Deepdene. The facility will fund the development of a mixed-use building comprising a health club, retail space, residential hotel (20 serviced apartments), 25 dwellings, and a two-level basement.

Key Information:

Developer	APH Holdings
Current Fund Investment	$1.6 million

Project Update

- Financial Close occurred in December 2023.
- A planning permit was received for the development of a mixed-use building, comprising a health club, retail, residential hotel and dwellings.

PORTFOLIO REVIEW

Point Nepean Road, Rye

2123-2135 Point Nepean Road, Rye VIC

The Project is designed by Cera Stribley architects and is aimed at owner-occupiers / downsizers who are seeking high quality but low maintenance beachside retreats and are priced out of the Mornington / Sorrento & Mount Martha markets. The development consists of 20 apartments and ground floor commercial/retail spaces.

Key Information:

Developer	Curtis York
Current Fund Investment	$1.0 million

Project Update

- Land for the project was settled in October 2022.
- A planning permit for the project was received in November 2023 and the project was launched in late December 2023.
- Post launch, the developer has sold two units out of 20 and is currently in advanced discussions with further two potential purchasers.
- The Developer is working with potential builders to procure an indicative cost plan and will then enter into an ECI (Early Contractor Involvement) process with the preferred builder.

PORTFOLIO REVIEW

Kallara House, Parkdale VIC

127 – 137 Como Parade East, Parkdale VIC

A facility to fund the construction of a residential apartment building comprising three levels plus a rooftop, designed by Warren and Mahoney Architects. The project includes a mix of 33 one, two, and three-bedroom apartments, and a single level basement car park accommodating 49 cars. Kallara House is located close to the Parkdale train station and retail precinct, and a short walk to Parkdale beach. The sponsor, Lowe Living, is one of Monark's key developer partners.

Key Information:

Developer	Lowe Living
Builder	Lowe Create
Current Fund Investment	$0.9 million

Project Update

- Since settlement of the land facility in December 2023, the developer has secured 10 unconditional presales (representing 31% of the units and 31% of the value).
- The developer is in the process of finalising the construction contract and construction on the project is expected to commence by the end of April 2024.

PORTFOLIO REVIEW

Lakeside Estate, Greenvale VIC

690 Somerton Road, Greenvale VIC

A land subdivision project on a 2.02 ha parcel of land located close to the Roxburgh Park railway station, established shopping centres and schools. The facility will be applied to civil works to enable the subdivision of the property into 39 residential lots.

Key Information:

Developer	Solovey
Current Fund Investment	$0.5 million

Project Update

- Financial Close occurred in December 2023.
- Pre-sales of 35 out of 39 lots made available for sale have been concluded, demonstrating strong market acceptance.
- Winslow (one of the largest civil contractors in Victoria) has commenced civil works on site.
- Procurement has been completed.
- Bulk earthworks are ongoing. In-ground sewer works are nearing completion. Inground electrical, water and stormwater drainage works are ongoing.

PORTFOLIO REVIEW

Land Subdivision, Deanside

131-171 Deanside Drive, Deanside VIC

The land of 12.12 hectares, located at 131 – 171 Deanside Drive, has a net developable area of 6.7 hectares. The project involves the construction and development of 124 residential lots, providing affordable housing stock with an average lot price of $395k - a price point currently attracting strong demand.

Key Information:

Developer	Solovey
Current Fund Investment	$0.3 million

Project Update

- Financial Close took place in February 2023.
- The developer has now engaged a majority of the consultant team via competitive tender.
- The town planning application is currently with Melton City Council for review.
- The developer is awaiting RFI (Request for Information) from Council with regards to the submitted town planning application.

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