

Fund Research

La Trobe Private Credit Fund (ASX: LF1)



Contents

Overview	1
Investment Strategy & Performance	5
Risk Factors	9
Construction and Investment Process	10
Portfolio Risk Management	15
Fund Governance	18
Quantitative Analysis	19
Alternative Investment Fund Research Methodology	26
Important Information	26

Overview

On 26 May 2025, the La Trobe Private Credit Fund (ASX code: LF1, or the 'Fund') launched an initial public offering to raise a minimum of \$100 million, with the ability to raise more up to a maximum of \$300 million.

The portfolio will be managed by La Trobe Financial (the 'Manager'), an Australian alternative asset manager with over \$20 billion in assets under management (AUM) and team of over 550 staff. This includes \$13bn under the La Trobe Australian Credit Fund, its flagship real estate credit offering which comprises seven different investment accounts – the longest standing being the Classic Notice Account inceptioned in 1989. As such, the Manager has established an extensive track record and impressively, no investor capital has been lost across its pooled accounts over this period.

The Trust will target a net return of 3.25% per annum above the RBA cash rate by investing across two of the Manager's core investment vehicles ('Underlying Funds'):

- **The La Trobe Australian Credit Fund – 12-month Term Account:** Incepted in 2002, the 12-Month Account has grown to become the largest investment account of the La Trobe Australian Credit Fund at \$10bn. It currently offers a variable rate of 6.50% after fees (as at 21 May 2025, reviewed monthly) and aims to outperform a benchmark of the Bloomberg AusBond Bank Bill Index +1.50%. The underlying portfolio invests in a range of diversified residential, commercial, rural, industrial, construction and development loans across Australia and other income producing credit-related assets.
- **The La Trobe US Private Credit Fund Class A Wholesale Units:** Incepted in December 2023, the US Private Credit Fund offers exposure to the US middle-market direct lending market through indirect investment into LGAM Private Credit LLC (the 'Underlying Fund'). The fund currently has a target net distribution rate of at least 8.75% per annum (excluding foreign exchange fluctuations). The Underlying Fund is advised by Morgan Stanley and supported by the broader US\$21bn private credit platform of Morgan Stanley Investment Management.

Key Characteristics			
Net Asset Value ¹	\$100-300 million	BondAdviser Risk Score	High
Unit Entry Price	\$2.00	Product Assessment	Approved
Minimum application size	\$2,000	Outlook	Stable
Fixed / Floating	Floating	Structure	Listed Closed-Ended Unit Trust
Distribution Frequency	Monthly	Sub-Asset Class	Private Credit
Target Return	RBA Cash Rate + 3.25% (net)	Responsible Entity	La Trobe Financial Asset Management Limited
Benchmark	n/a	Manager	La Trobe Financial Services Pty Limited
Management Fee ²	1.93% p.a.	Auditor	Ernst & Young
Performance Fee ³	0.07% p.a.	Valuation Services	Independent third parties (ND) for US Private Credit Fund

¹Subject to final amount raised. ²Excludes estimated transaction costs of 0.03% p.a. ³Charged at the underlying fund level

Product Assessment

Approved | Stable

La Trobe Financial has incurred zero losses across investor capital across its pooled accounts since inception in 1952, a testament to the strong credit and risk management framework of the Manager.

The **La Trobe Private Credit Fund** (ASX: LF1) is a listed investment trust (LIT) which provides investors with exposure to La Trobe Financial's flagship credit strategies. Split across domestic real estate lending and US middle market corporate loans, the Fund leverages off the strong track record of the Manager's core 12 Month Term Account product alongside its partnership with Morgan Stanley acting as an advisor for the underlying fund of the La Trobe US Private Credit fund.

La Trobe Financial is one of Australia's largest non-bank lenders with over \$20 billion in assets under management, including ~\$13 billion across the La Trobe Australian Credit Fund and the balance largely made up by securitisation warehouses and public residential mortgage-backed securities (RMBS). The Group is well resourced with 80 executives and 550 staff, with large origination and servicing teams (150 and 50 staff respectively). In our view, this feeds into the Manager's strong risk management framework and practices in its credit assessment of borrowers.

The Fund is expected to hold equal exposure to each underlying fund at inception and is likely to maintain these allocations within +/-10% bands over the ordinary course of markets. Additional capital raises, or material changes to market conditions may however see allocations move beyond this range temporarily. We note that the portfolio construction guidelines are relatively unconstrained to allow for this flexibility (20-100% for the 12 Month Term Account, and 0-80% in the US Private Credit Fund). In this context, La Trobe expects most of the committed proceeds (85%+) will be deployed into the underlying funds during the first full month of the Fund's operations, preventing any material cash drag.

Through these underlying fund allocations, LF1 will be primarily exposed to Australian residential real estate loans (~29%) and US private middle market loans (~46%), with smaller exposure (~19%) to other Australian real estate sectors (commercial, industrial loans and development finance loans). Real estate development lending is limited to 15% of the 12-Month Term Account, reflecting a lower risk profile compared to pure-play commercial real estate funds that are exposed to construction risk. In contrast to established real estate, valuations are contingent on successful construction completion, with market value estimates subject to uncertainty until the project is delivered.

Instead, the Fund barbells its risk through exposure to US middle market senior secured lending to deliver its target net return of 3.25% above the RBA cash rate. Whilst ratings are not available given the private nature of these investments, we estimate that the underlying USPC portfolio for this vehicle is around B based on recent syndicated loan pricing adjusted for an illiquidity premium. This is balanced against lower-risk \$10bn underlying portfolio of the 12 Month Term Account which benefits from credit enhancement in the Investor Reserve. This is funded from excess spread and forms first-loss protection for investors against shortfalls in income and/or capital. In combination with a heavy weight to residential mortgages, we assign a risk score of BB / High to LF1.

Our comfort with this strategy and product stems from the track record of La Trobe and Morgan Stanley, and the strength of risk management processes in place. This is backed by **zero loss of investor capital across its pooled accounts since inception of La Trobe in 1952**. We also highlight the defensive characteristics of the US middle market lending landscape, as represented by the Cliffwater US Middle Market Direct Lending index which has recorded an annualised loss rate of 1.00% since 2005.

While the Fund is a new vehicle with no track record, the 12 Month Term Account has been in operation since 2002. The track record of the underlying US Private Credit Fund is shorter at almost 3 years, but the broader Morgan Stanley Private Credit platform launched in 2010 and the adviser, MS Capital Partners, a wholly owned subsidiary of

LF1 implement a barbell strategy to achieve a target net return of 3.25% above the RBA cash rate. This is reflected in the risk-reward profiles of both underlying funds.

We view the quarterly buyback mechanism positively and expect the LIT to trade relatively close to NAV under ordinary market conditions to prevent arbitrage opportunities from arising.

Morgan Stanley, was established in 2007, both benefitting from a full credit cycle of investing. On a pro-forma basis, the return under the allocation framework (50/50) using the historical performance of the two underlying funds gives us confidence the Trust will be able to deliver on its investment objectives. Specifically on a 3-year basis, the average annualised monthly net return of the Fund has been 7.31% relative to the Fund's target return of 6.74%.

We highlight that realised returns can adversely deviate from the target return if the unit price trades at a discount to the Net Asset Value (NAV) of the Trust. This has been a historical criticism of LITs and can be driven by a range of factors including illiquidity, market conditions and/or underlying manager perceptions. In response, **La Trobe Financial will implement a series of capital initiatives to support unit price if required.** Funded by structural liquidity features of the underlying funds, this includes an off-market offer to buy back 5% of issued capital at NAV on a quarterly basis as well as ad hoc on and off market purchases if required. While these features are yet to be tested in a period of market volatility, we view this as a positive feature of LF1 and should limit the potential discount to NAV to all else equal. In addition, while we believe the quarterly buyback mechanism will be conducive to keeping the unit price close to NAV, we note that the Group may use its balance sheet to purchase units of the Trust on market, providing unit price support.

Overall, we assign a Product Assessment of **Approved** with a **Stable** outlook to the **La Trobe Private Credit Fund**. This reflects our comfort with the risk and credit management processes employed by La Trobe and Morgan Stanley, and the strong track record of both across their markets. Looking forward, consistent under the *BondAdviser Alternative Investment Fund Methodology*, upwards rating pressure is contingent on a successful 2-year track record, which we believe is achievable based on the pro-forma return profile of the underlying funds relative to the Fund's target return.

The La Trobe Private Credit Fund Offer comprises:

- a Cornerstone Offer to Institutional Applicants (capped at \$100 million);
- a Priority Offer to Qualifying Applicants (capped at \$100 million); and
- a Broker Firm Offer to those who have received a firm allocation from their Broker

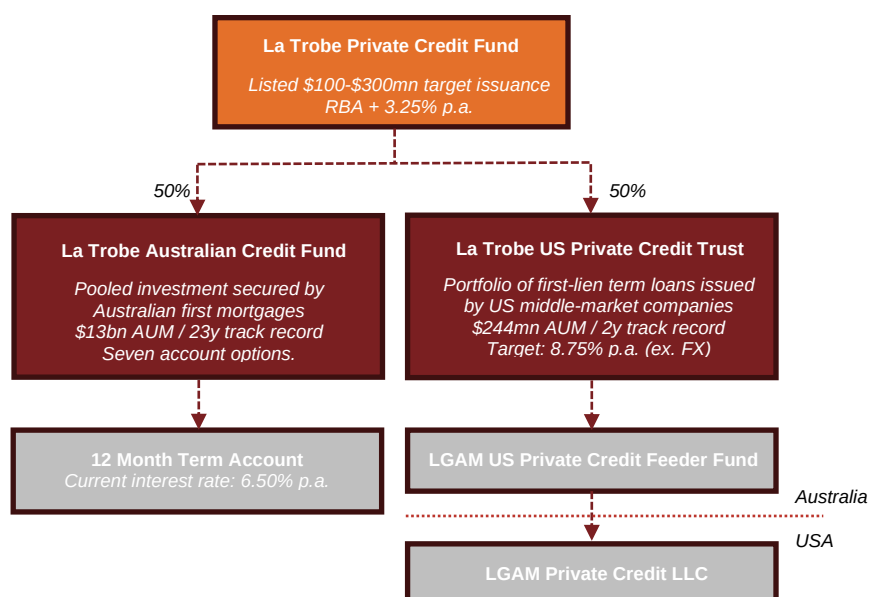
The Broker Offer is expected to open on 3 June 2025 and close on 13 June 2025. Invited institutions will bid during the Cornerstone Offer following the lodgment of the Product Disclosure Statement on 26 May 2025.

Investment Strategy & Performance

The investment strategy of the Fund is underpinned by investment in La Trobe's core investment vehicles, namely the 12 Month Term Account of the La Trobe Australian Credit Fund and the La Trobe US Private Credit Fund (Class A – Wholesale Units). This dynamic combination is expected to deliver a net return of 3.25% per annum above the RBA cash rate, payable monthly. Positively, cash drag is expected to be minimal with over 85% of proceeds raised being deployed into the underlying funds in the first month post settlement.

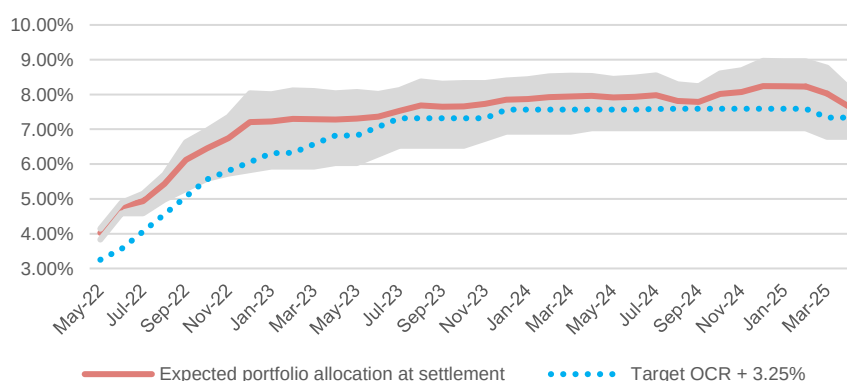
The initial portfolio is expected to have an equal weighting between the two underlying funds. However, the Manager is subject to relatively unconstrained guidelines which can be toggled to ensure the Fund meets its target return. Specifically, allocation to the 12 Month Term Account Allocation can fluctuate between 20-100% and allocation to the US Private Credit Fund can fluctuate between 0-80%. While this is a new product, the pro-forma return profile (historical and forecast) is illustrated in Figure 2 based on these allocations.

Figure 1. La Trobe Private Credit Fund Overview



Source: BondAdviser, La Trobe Financial.

Figure 2. La Trobe Financial Listed Investment Trust Pro-forma Performance



Source: BondAdviser, La Trobe Financial. Pro-forma returns based on NorthHaven returns between May-22 to Dec-23 and actual USPC Class A returns onwards. Grey area reflects pro-forma investment outcomes.

La Trobe 12 Month Term Account

The \$10bn 12 Month Term Account represents the flagship account and the largest vehicle of the La Trobe Australian Credit Fund, representing over 75% of assets under management. It aims to generate stable and predictable monthly income through investment in first lien Australian mortgages. It is one of seven accounts offered by the Manager with different terms, yields and characteristics. Through a single open-ended managed investment scheme proceeds are deployed into a diversified pool of first registered mortgages in a range of real estate sectors across Australia.

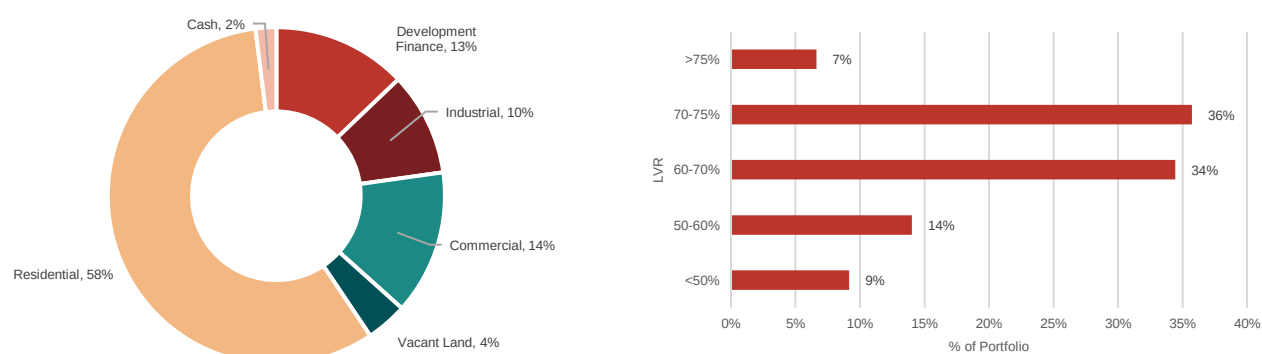
Figure 3. La Trobe Financial Australian Credit Fund – Accounts

Account	Classic Notice	90 Day Notice	6 Month Notice	12-Month Term	2 Year	4 Year	Select Investment
AUM (\$mn)	1,381	276	147	9,870	119	676	316
Interest Rate ¹ (%)	4.75	5.50	5.30	6.50	6.60	8.15	From 7.50
No. of Assets	1,697	262	129	11,059	128	171	389
LVR (%)	73.1	70.1	71.7	64.2	68.1	69.0	59.1
Avg Investment (\$mn)	0.72	0.99	0.91	0.88	0.91	1.4	0.81
Portfolio Composition							
Residential	20%	55%	29%	58%	25%	17%	36%
Non-Residential	49%	22%	56%	28%	63%	76%	17%
Development	21%	14%	7%	13%	10%	5%	47%
Cash	10%	9%	8%	1%	2%	2%	0%
Metro	90%	79%	90%	92%	81%	87%	97%
Apartments	1%	3%	3%	3%	2%	2%	2%
Shortfall							
1-yr	0.01%	0.04%	0.00%	0.04%	0.00%	0.00%	0.00%
5-yr	0.05%	0.00%	0.00%	0.04%	0.00%	0.00%	0.40%
10-yr	0.23%	0.00%	0.00%	0.10%	n/a	0.00%	0.33%
Investor Reserve ²	0.21%	0.60%	0.37%	0.23%	0.42%	0.08%	n/a

Source: BondAdviser, La Trobe Financial. Data As at 30 April 2025. ¹As of 1 March 2025. ²As of 31 March 2025.

As of 30 April 2025, the underlying portfolio consists of 11,540 loans collectively accounting for \$10bn. The loan book is heavily weighted (>90%) to metropolitan areas and split across residential mortgages (58%), established commercial (14%), industrial (10%), development finance (13%) and vacant land (4%). Importantly, the vast amount of loans (\$880k average size) allows the Manager to efficiently mitigate risk concentrations with only ~3% of the portfolio allocated to inner-city high-rise apartments. The conservative risk appetite of the portfolio is further vindicated by its average loan-to-value (LVR) 65% with less than <7% of loans having a LVR over 75%.

Figure 4. La Trobe Financial 12 Month Term Account Split



Source: BondAdviser, La Trobe Financial. As at 30 April 2025

La Trobe US Private Credit Fund (Class A)

The La Trobe US Private Credit Fund (Class A – Wholesale Units) indirectly invests in a diversified portfolio of first-lien term loans issued to private equity sponsored US middle-market corporates (being companies with approximately US\$15-200 million in annual EBITDA). This is achieved through AUD-hedged (through FX forwards) investment in the LGAM US Private Credit Feeder Fund, which in turn invests in LGAM Private Credit Fund LLC – an US-registered business development company (BDC).

The underlying fund is advised by MS Capital Partners, an indirect, wholly-owned subsidiary of Morgan Stanley Investment Management – a global asset manager with US\$1.6tn of AUM, including US\$22bn in US private credit. Through this partnership, the underlying fund leverages Morgan Stanley's network of private equity sponsors and corporates, providing access to deals that are otherwise difficult to access by standalone, independent private credit firms.

MSCP's investment strategy involves identifying prospects that hold defensible and leading market positions with barriers to entry, stable cashflows, and a diversified product and customer mix to mitigate concentration risk. As of 30 April 2025, the underlying portfolio amounted to \$244 million in AUM across 98 borrowers and almost entirely comprised of senior secured, floating rate loans. This is despite the underlying fund having ability to invest in second lien secured loans, as well as unsecured debt, equity investments, and opportunistic credit investments.

While the book is diversified across 29 different industries, the Manager has a conservative risk appetite with 95% of the portfolio weighed to less cyclical industries (with software, professional services and insurance services being the largest exposures). This is further supported by a relatively low weighted average LVR of 39%.

LGAM Private Credit Fund LLC will utilise leverage as part of its investment strategy and will aim to maintain target debt-to-equity leverage of 1.0x (with a cap of 2.0x, or 67% debt to gross assets). As the Fund will invest up to 80% of its assets in the La Trobe US Private Credit Fund, the Fund does not currently intend to exceed an overall leverage ratio of 1.60x of the NAV (based on a cap of 2.0x on the debt-to-equity leverage for the LGAM Private Credit Fund LLC). Whilst we note that domestic private credit funds are not usually levered for the purpose of return enhancement, the target level of leverage is not unusual for US private credit funds. Nevertheless, creditors lending to the underlying fund rank senior to the Fund's holdings in the underlying fund, which is a risk that investors should be aware of.

Figure 5. La Trobe US Private Credit Fund Split



Source: BondAdviser, La Trobe Financial. As at 30 April 2025.

Performance

The 12 Month Term Account strategy was inceptioned in 2002 and has consistently outperformed its benchmark of Bloomberg AusBond Bank Bill Index +1.50% over this period. This includes no losses of investor capital, nor any delay to investor withdrawal requests due to a lack of liquidity – both protected by the dedicated Investor Reserve which provides first loss protection. Paid out of excess spread after a management fee of 1.80% p.a. (0.50% rebated for LF1), this reserve is maintained by La Trobe at its discretion (with a target range set as a percentage of AUM and reviewed periodically) and used to manage income and/or capital risk across investor accounts. As of 31 March 2025, the investor reserve totaled \$22.7mn or 0.23% of AUM – notably above annualised historical shortfalls on a 1-yr (0.04%), 5-yr (0.03%) and 10-yr (0.10%) basis.

Figure 6. Monthly Net Returns* (%) – 12 Month Term Account

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2025	0.56	0.56	0.54	0.54									2.20
2024	0.55	0.55	0.55	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	0.56	6.69
2023	0.47	0.47	0.47	0.48	0.48	0.50	0.52	0.52	0.52	0.52	0.54	0.55	6.04

*Return is monthly net total return based on NAV plus distributions. **Does not assume reinvestment of distributions.** Source: BondAdviser, La Trobe Financial. As at 30 April 2025. Inception of underlying fund is 2002.

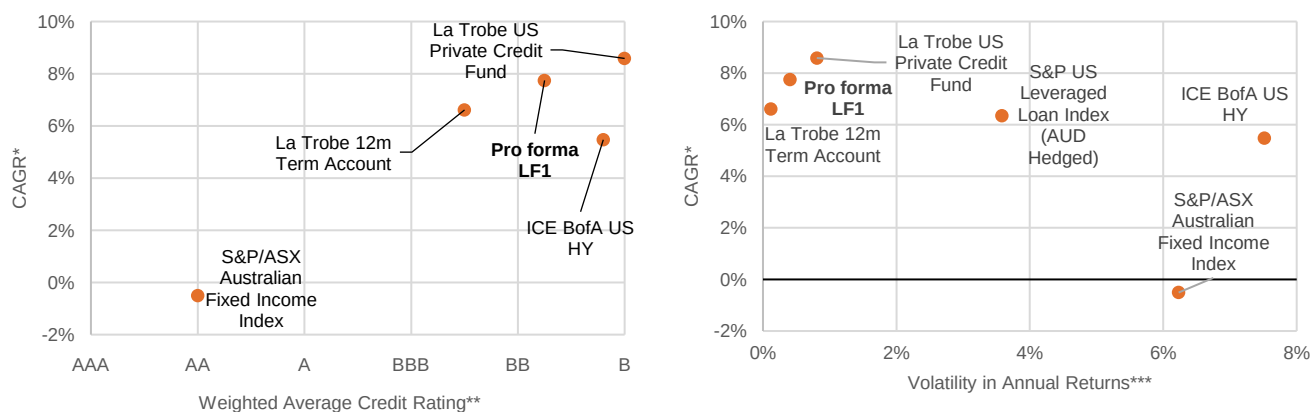
The La Trobe US Private Credit Fund consists of Class A (wholesale) and Class B (retail) units. LF1 will be invested in the former, which targets a net return of 8.75% per annum – supported by a target distribution yield of at least 9% for the underlying fund. While the La Trobe US Private Credit Fund is one of the Manager's relatively newer products (inceptioned in December 2023), we take comfort in the long-standing track record of Morgan Stanley Private Credit.

Figure 7. Monthly Net Returns* (%) – USPC Class A

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2025	0.71	0.52	0.47										1.70
2024	0.99	0.88	0.90	0.67	0.54	0.95	0.73	0.47	0.69	0.92	0.77	0.97	9.47
2023												0.30	0.30

*Return is monthly net total return based on NAV plus dividends. **Does not assume reinvestment of distributions.** Source: BondAdviser, La Trobe Financial. As at 31 March 2025.

Figure 8. Estimated Risk-Adjusted Comparison (Underlying Portfolio for Weighted Average Credit Rating)



*Returns for market indices calculated using a 5-year compounded annual growth. **Proforma performance represents 50/50 weighted return of underlying funds, not actual return.** ** Credit ratings based on BondAdviser estimates.

Source: BondAdviser Estimates, La Trobe, Bloomberg. As at 30 April 2025.

Positive Risk Factors

- **Track Record.** La Trobe Financial is an extensive track record spanning over 70 years. This has accumulated into a platform of over \$20bn of AUM with no loss of investor capital across its pooled accounts over this time period. The Manager's flagship 12 Month Term Account has consistently beat its benchmark since inception in 2002 with 100% of capital returned to investors and no delays to withdrawal requests or interest payments.
- **Investor Reserve.** The 12 Month Term Account is protected by the first loss Investor Reserve which has successfully covered any capital shortfalls across the underlying portfolio. This is held directly by La Trobe Financial and is contributed by the Manager out of excess management income after management fees are paid (1.80% p.a. of the average total investor balance, of which 0.50% is rebated to the Fund). The target range for the investor reserve is set at the discretion of the Manager and currently sits at 0.23% of AUM – comparing strongly against a 10-year annualised shortfall of 0.1%.
- **External Expertise.** La Trobe has partnered with Morgan Stanley Private Credit to manage the underlying strategy of the La Trobe US Private Credit Fund. Through this partnership, the underlying fund leverages Morgan Stanley's network of sponsors and corporates, providing access to deals that are otherwise difficult to access by standalone, independent private credit firms.
- **Capital Management Initiatives.** The La Trobe Private Credit Fund will benefit from capital management initiatives to support the unit price and prevent the possibility of Trust trading at a discount to NAV on the ASX. This includes quarterly off-market buybacks at NAV of up to 5% of issued capital as well as ad hoc on-market purchases.

Negative Risk Factors

- **Use of Leverage.** The underlying strategy of the La Trobe US Private Credit Fund intends to use leverage and will aim to maintain target debt-to-equity leverage of 1.0x (with a cap of 2.0x). This implies the Fund could have an overall leverage ratio up to 1.60x of NAV based on an allocation of up to 80%. While leverage is common across the US private credit landscape, it contrasts to unlevered domestic private debt funds. Investors should be aware that the use of leverage magnifies returns for investors to both the upside and downside.
- **Lack of Independent Responsible Entity.** The Responsible Entity of the Fund is La Trobe Financial Asset Management Limited, a subsidiary of the broader La Trobe Financial group. Whilst we prefer an independent RE, we note that the RE is overseen by an independent compliance committee.
- **Manager Risk.** A significant deterioration in the quality of the Manager (La Trobe Financial) could adversely impact the Fund or Underlying Funds. This could include (but is not limited to), poor fund performance, material breaches in governance, risk management failures and/or loss of key personnel. This is balanced by the Manager's strong track record of over 70 years.
- **Hedging Risk.** The La Trobe Private Credit Fund will be exposed to hedging risk through its investment in the Class A units of the US Private Credit Fund. There could be material exposure temporarily given the relatively unconstrained guidelines of the fund (0-80% allocation range). We note this is somewhat balanced by the active hedging policy of the Manager including rolling of positions prior to expiry, staggered maturities to limit concentrations and intention to add multiple hedging counterparties in the near term.

Construction and Investment Process

At the fund level, the construction and investment process involves allocation between the 12 Month Term Account and the US private credit fund, to achieve the target return within each underlying fund parameters. Whilst the portfolio construction of the Fund is quite unconstrained as a function of the lack of direct investment in loans (rather through investment in underlying funds), each underlying fund has some constraints across investment parameters as detailed below.

La Trobe 12 Month Term Account

Portfolio construction at the underlying fund level begins with the consideration of exposures across geography, real estate sector and loan to value (LVR) exposure. As seen in the figure below, adherence to these portfolio constraints ensure diversity across a number of parameters, which is positive from a credit perspective. In addition, LVR exposures being capped at 80% is reasonably conservative in our view, given it would require a drawdown of over 20% for a single exposure for the underlying fund to be impacted. In this instance, (1) the level of asset diversification, and (2) level of loss protection in the investor reserve helps mitigate some risk involving the underlying fund not achieving the required return.

Figure 9. Portfolio Constraints – 12 Month Term Account

Sector	Maximum Exposure	Geography	Maximum Exposure	Sector	Maximum LVR
Residential	80%	ACT / NT	10%	Commercial	70%
Vacant Land	10%	NSW	50%	Retail	70%
Commercial	40%	QLD	40%	Industrial	70%
Industrial	30%	SA	10%	Residential (OO/Investment)	80%
Rural	15%	TAS	10%	Rural	55%
Construction	15%	VIC	50%	Other (Hotels, Land Loans)	55%
		WA	20%		

Source: BondAdviser, La Trobe.

The portfolio is expected to be primarily tilted to the domestic residential real estate sector, which has exhibited consistently stable price growth relative to other sectors historically, a positive considering the impact on LVRs over time. We note this market has become quite competitive with the build up of market share of non-bank lenders, and the major banks competing heavily for business over recent years, putting pressure on margins. That said, many of the borrowers in the underlying fund are self-employed who might not fit the general mould of major banks criteria, or due to regulatory capital restrictions associated with authorised deposit taking institutions (ADIs).

At an underlying asset level, loan origination is supported by a broad and deep broker footprint, with size and reach spanning thousands of accredited finance brokers across the country as one of the most prominent non-bank lenders in the domestic market. This is key to ensuring consistent and repeat deal flow, with strong service and speed of approvals helping to maintain a strong loyalty base amongst brokers.

After the initial stages of origination, La Trobe implements its 'Five C's of Credit' in its underwriting process (highlighted below) with a minimum of two credit analysts on a deal, or three experienced credit analysts/managers for lending exposures in excess of \$7.5 million. These larger exposures are referred to for unanimous approval from the Large Loan Committee, which consists of four members of the executive team.

Figure 10. La Trobe Financial's Loan Origination Standards – The Five Cs of Credit

1. Character	2. Capital	3. Capacity	4. Collateral	5. Conditions
• Credit history • Residential stability • Employment type and stability • Asset accumulation	• Savings history • Financial position • Deposit/equity in property • Amount of deposit saved relative to gifted	• Regular, predictable income • Commitment level • Length of employment • Income level • Income source • Level of annual saving beyond expenses	• Level of security over asset, location and equity • Guarantees as required • Corporate charges over company assets (GSAs)	• Market conditions • Required remedial works to security offered • Drawdown conditions (if applicable, such as construction loans)

Source: BondAdviser, La Trobe.

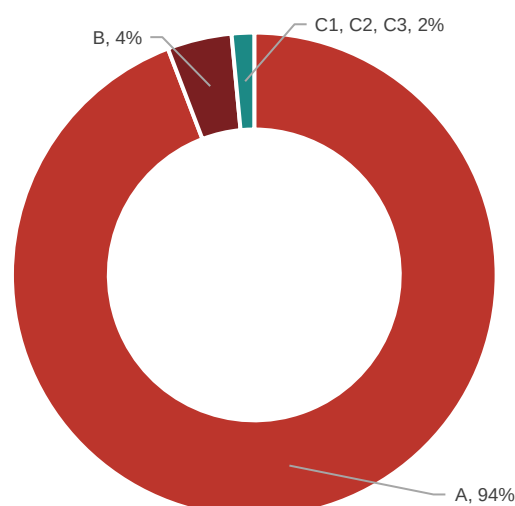
For all loans, La Trobe will only advance loans whereby the security property has been independently valued by one of La Trobe's licensed panel valuers. Valuations are ordered through Valuation Exchange where the platform assigns an accredited panel valuer at random. This is best practice in our opinion as it ensures independent valuations are obtained, preventing potential biases from arising across the process.

La Trobe also assigns a credit grade to each underlying borrower, from A through to C3, as detailed below:

- **A Grade:** Customers who qualify for a loan product with a major bank. Fast execution, borrowers have had no defaults, telco/utility defaults limited to <\$1,000, no mortgage arrears history, no prior bankruptcy. Can be full or alternative documentation, self-employed.
- **B Grade:** Customers who do not qualify for major bank loans due to minor credit issues, but exhibit capacity to repay loan. These borrowers fail automated credit scoring models, may have irregular savings or employment history, multiple defaults due to life events (requires documented evidence resulting in satisfactory explanation), prior bankruptcy beyond two years considered.
- **C1, C2 & C3:** Customers who have suffered a life event resulting in a significant credit event, or have had a limited history of self-employment. Borrowers may have gone through life events and short-term unemployment, mortgage arrears in excess of six months, multiple defaults due to life events (requires documented evidence resulting in satisfactory explanation), prior bankruptcy beyond two years considered, may have had bankruptcy in excess of 12 months.

As seen below, the majority of the underlying exposures are borrowers which exhibit A grade quality.

Figure 11. Borrower Credit Grades – 12 Month Term Account



Source: BondAdviser, La Trobe.

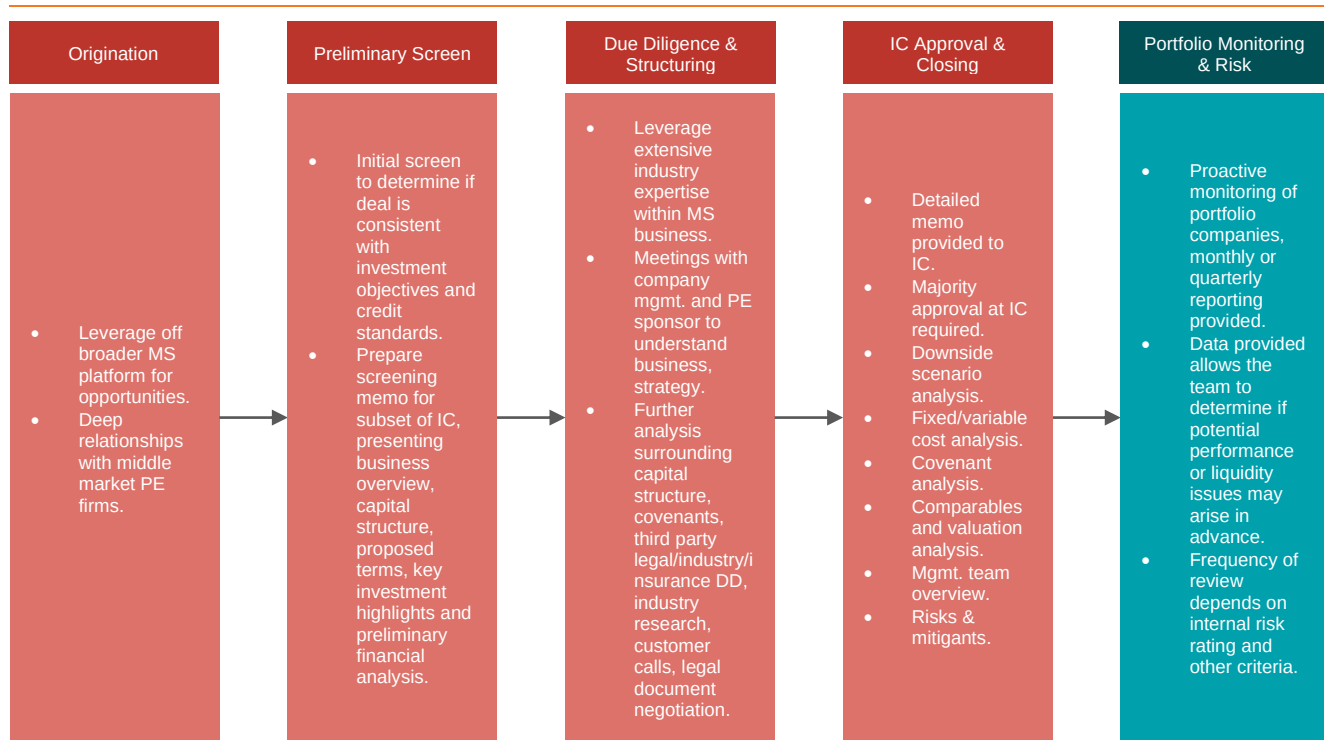
La Trobe US Private Credit Fund (Class A)

Morgan Stanley's investment process begins with an initial call or meeting with the private equity sponsor and/or company management. A key benefit of the underlying fund is the ability to leverage the broader MS platform for its network of private equity sponsors and the expertise of the broader team in each industry.

The investment team evaluates the core merits and risks of the opportunity, discusses the preliminary capital structure, and reviews a summary term sheet. This is presented and supported by a 10+ page presentation deck prepared by a team of 3 to 5 members, including senior members of the team. The discussion is attended by eight Screening Committee members and typically covers deal dynamics, diligence requirements, company financials, comparable transactions, and structural recommendations, including leverage and pricing options.

From here, the Investment Committee (IC) plays a critical role in the decision-making process by reviewing all due diligence for each potential investment. It oversees the construction and pacing of the portfolio, ensuring a balanced risk/reward profile, and ultimately decides whether to approve or reject an investment. Content includes updates from the initial screening, in-depth financial models under various scenarios, third-party due diligence findings (covering financials, market, tech, legal, and ESG), and a review of proposed legal terms. The portfolio is monitored on an ongoing basis, undergoing formal quarterly portfolio reviews and quarterly risk reviews. Managers face access to a recurring watchlist and portfolio leverage and compliance dashboards to assist the process. A highlight of the MSPC investment process is provided as below:

Figure 12. MSPC Investment Process



Source: BondAdviser, La Trobe, Morgan Stanley.

The US Private Credit Fund also employs a multi-layered valuation process to ensure accuracy and compliance. The Adviser's Valuation Committee, comprising investment professionals and the finance team, conducts a review which is subsequently assessed by the legal and risk teams. The committee utilizes a standardized DCF model for validating the valuation of performing illiquid credits. The process is guided by a clear valuation policy (subject to annual review). The Audit Committee then evaluates these assessments alongside third-party valuation firms – responsible for conducting a monthly review on a portion of the portfolio. At least 50% of the illiquid investments are reviewed at non-quarter end months (and 100% reviewed at quarter end) by the third-party valuation firms. The Audit committee is ultimately responsible for making a recommendation to the Board of Directors. Finally, the Board of Directors reviews recommendations, ensuring fiduciary oversight and final approval of valuation policies.

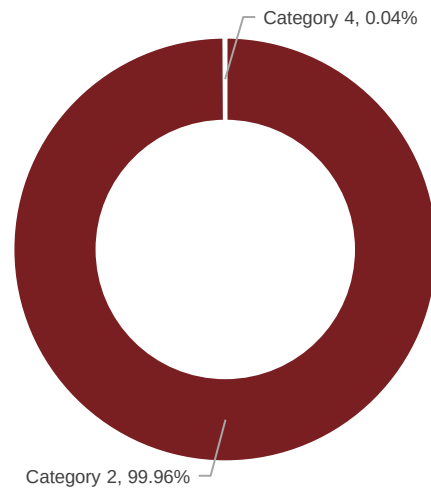
In terms of portfolio constraints for the underlying fund, the LGAM Private Credit Fund can utilise debt financing and is subject to a debt-to-equity cap of 2.0x leverage but targets a 1.0x debt/equity ratio. Morgan Stanley intends to use leverage to help finance underlying assets, creating potential for magnified performance.

Each individual loan within the underlying fund is subject to quarterly or monthly reviews depending on the risk category assigned. The four risk categories are detailed below:

- Category 1:** Lowest perceived risk, performance is above initial expectations at initial underwriting and business/industry trend and risk factors are favourable. Investment reviewed at least quarterly.
- Category 2:** Generally performing in line with initial expectations at underwriting and risk factors considering the recoup of principal investment range from neutral to favourable. All newly originated or acquired investments are initially included in this category. Investment reviewed at least quarterly.

- **Category 3:** Indicates increased level of risk in recouping principal relative to time of origination. Factors driving a Category 3 allocation are declining financial performance, non-compliance with covenants, and interest payments are past due up to 120 days. Investment likely reviewed monthly.
- **Category 4:** Indicates that the borrower is performing materially below initial expectations at initial underwriting. Factors driving a Category 4 allocation are non-compliance with all or most covenants, payments substantially delinquent. It is expected that initial cost basis may not be realised, resulting in a substantial loss on investment. Investment likely reviewed monthly.

Figure 13. Borrower Risk Rating Scores – La Trobe US Private Credit Fund



Source: BondAdviser, La Trobe.

At the Fund level, the portfolio is unconstrained with limited restrictions as a function of limited direct investments, with allocation toggling between the two underlying funds. That said, there are portfolio construction constraints at each underlying fund level but appear to be more restrictive at the 12-month term account level. In terms of the US private credit fund, the underlying fund targets each investment being between 1-3% of gross assets, a 20% limit to an individual industry and non-US portfolio companies not exceeding 10% of the underlying fund, and a target debt/equity ratio of 1.0x with a cap of 2.0x.

Portfolio Risk Management

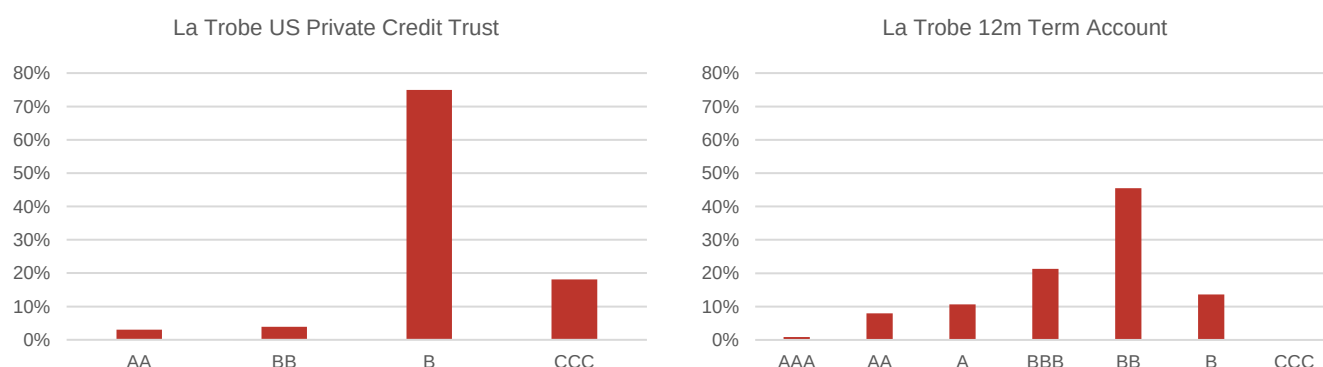
Due to the asymmetric nature of credit investments, we view effective risk management as key in underpinning success. This section is aimed to be qualitative and ex-post quantitative in nature, and should be viewed in conjunction with our ex-ante *Quantitative Analysis* in which we simulate the portfolio returns under differing scenarios using a Monte Carlo simulation.

Given the private nature of the La Trobe Private Credit Fund's underlying assets, our assessment of risk management focusses on two core elements: credit risk (i.e., the quality of the underlying assets) and liquidity risk (i.e., the risk that an asset cannot be sold quickly without significantly impacting price). We consider interest rate risk to be benign given the floating rate nature of the two underlying funds.

Credit Risk

Given the bilateral nature of the underlying loans within each underlying fund, credit ratings are not assigned to each underlying loan, but each underlying fund uses separate proprietary risk management tools to assess the credit of underlying loans as described in the *Construction and Investment Process* section of this report. Instead, we have made assumptions for the underlying assets with each underlying fund, namely: (1) the underlying assets within the 12-month term account are assigned a credit rating based on the LVRs of the portfolio, and (2) the underlying assets within the US private credit fund are assigned a credit rating based on recent rated syndicated loan pricing adjusted for an illiquidity premium. The outcomes of these assumptions are detailed below and form the basis for our modelling in the *Quantitative Analysis* section of the report.

Figure 14. BondAdviser Estimates – Proxy Credit Rating Profile of Underlying Funds



Source: BondAdviser Estimates, La Trobe, Morgan Stanley, Bloomberg. As at 31 December 2024. **Reflects BondAdviser estimates, does not reflect actual credit rating of underlying assets.**

Credit risk is somewhat barbelled with 50% allocation into relatively safer investments (along the credit spectrum) in Australian ex-construction loan risk, and 50% allocation into middle market US private credit loans. Importantly, with over 90 individual borrowers across the US private credit sleeve and over 9,000 individual loans within the 12-month term account, the portfolio benefits from a high level of diversification. This is particularly important in credit investing given the negative return skew exhibited in the asset class, with limited upside but high potential downside. Credit risk is also supported by an investor loss reserve representing any accumulated net returns beyond what is paid out to term account investors, contributing to zero capital losses incurred across portfolio investor capital. We view this mechanism positively as it ensures the manager does not take on excessive levels of risk to capture a greater excess spread that would otherwise be paid out to the manager.

Credit risk across the 12-month term account is managed through La Trobe's "Five C's" framework as mentioned, but each loan also benefits from security over real assets with significant equity headroom to absorb any potential downside in the event La Trobe is required to enforce security over the asset as last resort. In our opinion, given the significant supply/demand imbalance across Australian residential property (which composes the majority of the book), 20%+ equity buffers ensure a safety buffer and this is evident across La Trobe's track record spanning decades without a single capital loss incurred across portfolio investor capital. Additionally, we note that the underlying fund has limited exposure to construction risk, which is generally considered higher risk than loans not exposed to the development life cycle and are already built.

It is important to note that LGAM Private Credit Fund intends to utilise leverage as part of its investment strategy and will aim to maintain target debt-to-equity leverage of 1.0x, which corresponds to 50% gearing. Whilst gearing to this extent is not common domestically, it is relatively commonplace in the US with some funds levered to an even greater extent. Investors should note that leverage magnifies credit risk, benefitting to the upside, but also magnifying returns to the downside.

Liquidity Risk

Liquidity for the Fund is comprised of two elements, (1) portfolio liquidity, relating to the liquidity of the underlying assets, and (2) investors are able to realise cash from their holdings in the Trust.

Portfolio Liquidity

As a function of the underlying loans being illiquid, portfolio liquidity is limited. That said, the Trust is not exposed to redemption-based risks due to its closed end structure besides a 5% quarterly buyback mechanism due to the closed ended nature of the Trust, mitigating some level of liquidity risk exhibited in direct lending funds.

That said, external to the Trust, there are liquidity risks associated with the 12-month term account, given that the 12-month term account invests in loans that are longer-term. If a material portion of investors choose to not roll over their term account at the end of the 12 months, significant pressure may be put on the underlying fund. That said, (1) historically a significant portion of investors roll over their funds (70%+), (2) there generally is a reasonably material level of loans rolling off over 12 months at any point in time (30%+) and borrowers may refinance over the course of the life of the loan, (3) the underlying fund has had a strong track record spanning decades and importantly over the GFC and COVID with zero capital losses across portfolio investor capital, and (4) the management team includes a chief liquidity officer broadly overseeing liquidity. In our view, these risks are well managed by the team but note that liquidity issues may arise if investor confidence towards La Trobe deteriorates such that investors do not roll over their funds at the end of the 12-month period.

In addition, while direct investors in the 12-month term account are unable to withdraw prior to maturity without incurring a withdrawal fee, we note that the Trust is treated as a platform investor in the term account. This allows the Trust to make redemptions up to at least 2% each month if necessary without penalty, and any redemption in excess of 2% is up to the discretion of La Trobe Financial.

Investor Liquidity

The Fund is a closed ended ASX-listed investment trust, mitigating redemption-based risks inherent in open ended funds where the fund primarily hold illiquid investments. Investor liquidity is therefore generally a function of daily traded volumes on the ASX, or through any discretionary buybacks conducted by the Manager.

We note that the unit price may deviate from the net asset value of the Fund. In the past, there have been periods whereby LITs have traded at a significant discount to NAV, reflecting poor market sentiment, supply/demand of units, and/or a lack of faith in the intrinsic value of the fund. Contrarily, there have been periods of time when LITs have traded at a premium to NAV, reflecting periods of time of strong market sentiment, or excess demand for units relative to supply. The Trust is not exempt from this risk, but we believe that the quarterly buyback mechanism, totalling 5% of capital per quarter, may result in the unit price trading closer to NAV to prevent arbitrage opportunities from arising in ordinary functioning markets. That said, the mechanism is relatively untested during period of significant market distress in Australia.

Currency Risk

The La Trobe US Private Credit Fund is expected to be invested in USD-denominated loans, exposing the Trust to foreign currency risk. Importantly, USD exposure will be hedged back into AUD through one or more feeder funds reducing the potential for adverse impact on asset values due to foreign currency movements. Whilst not our base case, we note that extraordinary moves in foreign exchange markets may result in the underlying funds being under- or over-hedged and may expose the underlying funds to materially adverse outcomes (i.e. having sufficient eligible collateral to meet margin requirements). This is a tail risk investor should be aware of. That said, current terms agreed upon by La Trobe as at the date of this report provide for no margin calls for contracts up to 12 months tenure.

Currently, the underlying fund hedges USD exposure into AUD exposure on forward contracts of up to 12 months rolled prior to maturity, with one investment grade counterparty used. La Trobe expects this will increase to around four counterparties in the future, which is positive in the context of counterparty diversification. We also note that derivatives are intended to be used solely for hedging purposes, rather than speculation.

Interest Rate Risk

The level of interest rate risk is negligible as a function of exposure across both underlying funds being primarily floating rate loans. As a result, any change in risk-free rates should result in corresponding changes to the distributions paid to investors. We view duration matching positively from a risk management perspective given it minimises the risk that the Trust cannot meet the target return in the event of adverse movements to interest rates arise. We also note Manager may engage to manage interest rate risk through the use of derivatives (excluding at the 12 Month Term Account level). As of today, the La Trobe US Private Credit Fund has not entered into any interest rate swaps.

Fund Governance

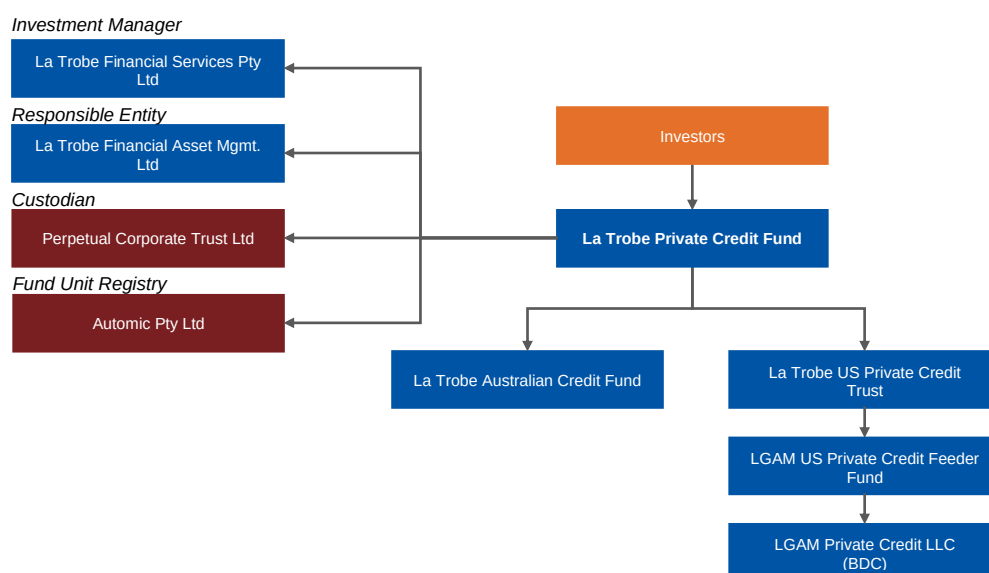
The La Trobe Private Credit Fund is an ASX-listed closed-end unit trust. The Trust is a listed managed investment scheme that is registered with ASIC (the Australian Securities and Investment Commission). The key documents governing the Trust are the product disclosure document (PDS), and the Trust's constitution.

La Trobe Financial Asset Management Limited, a wholly owned subsidiary within the La Trobe Financial Group, is the responsible entity (RE) of the Trust. The RE has entered into an Investment Management Agreement with La Trobe Financial Services Pty Ltd to provide management services to the Trust. We note that while the RE is a wholly owned subsidiary of La Trobe, the board of the RE contains one independent non-executive director and one non-executive director. This presents some conflicts of interest, and while we think it is best practice to engage a reputable third party for responsible entity/trustee services to ensure independent oversight and governance for investors, there a compliance committee with two of the three members being independent convening quarterly.

Ernst & Young (EY) will be the independent auditor of the Trust's financial statements at inception. The Trust reports each financial year, with a year end of 30 June. Audited semi-annual reports are provided as at 30 June and 31 December.

The Fund's net asset value per unit (NAV) will be calculated and made available monthly on the ASX and the Trust's website. However, given the underlying portfolio comprises Level 3 assets, valuation requires judgement and estimation. The LGAM Private Credit Fund values its assets at least quarterly and is consistent with US generally accepted accounting principles (GAAP). Valuations are also broadly conducted by an independent third party each quarter and month-end, with all loans being independently valued at least annually. In terms of the underlying assets within the 12 month term account, each valuation is ordered independently and blindly through the platform Valuation Exchange, which assigns an accredited panel valuer at random. We view this practice positively as it ensures independent valuations are obtained, limiting bias across the process.

Figure 15. La Trobe Private Credit Trust – Fund Structure



Source: BondAdviser, La Trobe Financial.

Quantitative Analysis

Our quantitative analysis is designed to test the underlying portfolio under a Baseline and Stressed scenario **to give an indication of expected future performance of the underlying assets under normal and adverse conditions**. This analysis is based upon a number of historical inputs, including Jump to Default (JTD) probabilities, recovery rates across security types, and yield curves. These scenarios are modelled outcomes and do not reflect the actual performance of the Fund.

Our simulations show the probabilistic distribution for expected gross capital loss/gain (grey curve) and gross underlying return (orange curve) but do not consider any skill from the manager **nor any return impact attributable to actual mark-to-market movements**. Any return impact attributable to traded prices is a result of any fundamental change in credit risk, rather than actual mark-to-market movements in prices. The process is consistent across asset and product types and relies on historical data.

We have adopted the CreditMetrics framework, which attempts to model credit migrations, including JTDs, that directly impact the valuation of the Fund. Based on historical and estimated fair value yield curves, we can revalue each individual holding for each derived credit rating, which is intended to simulate the likelihood and severity of deterioration in security values, as would be expected as part of the valuations process. The core of the analysis, however, is determined by the probabilities of a JTD and the ultimate recovery given default (loss given default, LGD). Our analysis places no limit on adverse credit migration to model a possible worst-case scenario for investors. **We note this approach makes no implicit assumptions on La Trobe's capability in avoiding capital losses.**

We model the probability of JTD and mark-to-market losses from historical data, known as transition rates (see Table 1 for an example). This data reflects long-term statistics (1970-2022) regarding the probability of an issuer moving from its current credit rating over a one-year period, and, in the event of default, the average ultimate recovery is based on priority of repayment (seniority). Although the investment horizon is beyond one year, we apply a one-year credit migration outlook for the quantitative framework to limit the uncertainty of variables.

Table 1. Average Migration Rates (1970-2023)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	91.5%	7.9%	0.6%	0.1%	0.0%	0.0%	0.0%	0.0%
AA	0.8%	90.0%	8.7%	0.4%	0.1%	0.0%	0.0%	0.0%
A	0.0%	2.5%	91.7%	5.2%	0.4%	0.1%	0.0%	0.0%
BBB	0.0%	0.1%	3.9%	91.5%	3.5%	0.6%	0.1%	0.2%
BB	0.0%	0.0%	0.4%	6.4%	83.9%	7.4%	0.8%	0.9%
B	0.0%	0.0%	0.1%	0.4%	5.3%	82.7%	7.5%	3.4%
CCC	0.0%	0.0%	0.0%	0.1%	0.3%	6.8%	81.9%	8.0%

Source: BondAdviser, Moody's. Withdrawn ratings and ratings that have moved to CC or below are excluded from totals.

For each rating rank and for most of the portfolio, an instrument's credit rating is likely to remain static over the modelled timeframe, with some probability of an adverse movement. This highlights that credit ratings are negatively skewed, which is amplified for loans in our analysis, by explicitly eliminating any probability of a ratings increase, given the infrequency that loans are revalued upwards of par. What typically happens in

loan markets upon underlying credit improvement is that the borrower will refinance the loan at a cheaper rate, repaying the outstanding loan at par.

Our analysis builds on the principles behind Merton's structural credit model to randomly generate a series of credit ratings in one year's time. This is based on stochastic principals, with no Gaussian (normal distribution) assumptions being made. To focus on credit, asset returns are derived from coupon and fee income, credit rating migrations and loss given default. Impacts of duration and liquidity are ignored. The core assumption is that asset returns are determined by the yield curve and credit rating or default and recovery, of the security at that time.

We simulate 10,000 scenarios for each set of assumptions, where each portfolio asset has an end credit rating defined by transition probabilities. Mapping valuation changes, or loss given default, to these hypothetical states, allows us to derive a probability distribution of portfolio valuation. The revaluation overlay allows us to estimate (unrealised) mark-to-market losses over a one-year horizon. The primary driver of our scenarios is contingent on JTD and LGD rates.

Additionally, in selected figures [curves labelled *Gross E(r)*] we have included the estimated impact of coupon carry for the year. These curves illustrate the offsetting impact interest payments have against credit migration losses. In a well-diversified portfolio a single counterparty default has an impact that is insignificant compared to the income generated – in effect offsetting the loss. This dynamic is not present in poorly diversified portfolios where credit counterparty risk is material.

When an individual asset adversely jumps to default in any single scenario, we assume no interest payments are made. In evaluating a recovery value in a JTD event, we simulate a random variable utilising a beta-distribution. Distributions vary by seniority and are constructed using largely historical data (Table 2-3).

Table 2. Recovery Rate Inputs (Bonds and Loans)*

	1983 - 2022 Average**	GFC Scenario	2022
First Lien Loans	69%	70%	70%
Senior Secured	58%	43%	61%
Senior Unsecured	44%	27%	31%
Subordinated	36%	22%	18%
Equity***	10%	5%	15%

Source: BondAdviser, Moody's, S&P

* Individual recovery rates will vary, based on a simulated random variable utilising a beta-distribution, using mean and variance parameterisation. ** First Lien Loans long-term average from 1990 - 2022, not 1983 - 2022.

*** Not empirically based, standardised across all BondAdviser QA testing as a punitive input. Constant standard deviation of 10% used for equity.

Downwards revaluations of a loan asset will directly impact the Fund. This decision can be subjective and binary which makes it difficult to model with respect to credit risk. We conservatively impair assets for any level of negative migration, reflecting the higher discount rate implied by a greater probability of default, this is not dissimilar to the expected market reaction, where expected loss is marked-to-market.

Table 3. Scenario 1 - Bond & Loan Migration Rates (2018)**

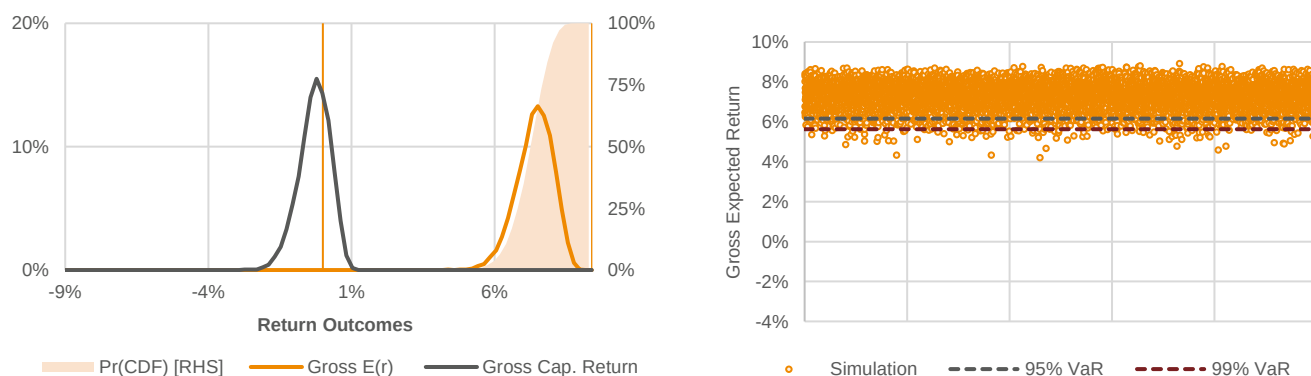
FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	96.1%	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.3%	94.1%	3.8%	0.4%	0.4%	0.4%	0.3%	0.3%
A	0.3%	3.8%	89.9%	4.2%	0.6%	0.5%	0.4%	0.4%
BBB	0.0%	0.0%	3.6%	92.4%	2.2%	0.4%	0.8%	0.5%
BB	0.0%	0.0%	0.2%	7.7%	80.1%	6.3%	3.0%	2.6%
B	0.0%	0.0%	0.3%	1.5%	6.8%	79.2%	7.9%	4.2%
CCC	0.0%	0.0%	0.4%	2.2%	2.3%	7.0%	79.5%	8.7%

Source: BondAdviser, Moody's

** Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.

Under our Baseline scenario, the Fund exhibits stable performance with a median return of 7.34%, with strong downside protection as measured by a 99% value at risk (VaR) of 5.63%, and 95% VaR 6.16%. This implies that in the 10,000 modelled simulations, the portfolio generated a return above 5.63% and 6.16% in 9,900 and 9,500 simulations, respectively. We note this analysis includes expected credit losses and recoveries below par, which does not reflect Morgan Stanley and La Trobe's ability to manage credit risk and workout processes, putting downward pressure on expected returns relative to the headline yield across each asset. Nevertheless, the portfolio still exhibits strong downside protection and this is underpinned by the senior secured nature of real estate loans and corporate private credit, and supported by relatively conservative LVRs across the real estate portfolio. Further, the portfolio benefits from significant counterparty diversification, with thousands of loans across the Australian real estate loan portfolio and close to 90 across the US private credit fund. Diversification helps mitigate concentrated potential capital losses in contrast to smaller, more concentrated portfolios.

Scenario 1. Baseline Asset Assessment (2018 Data)



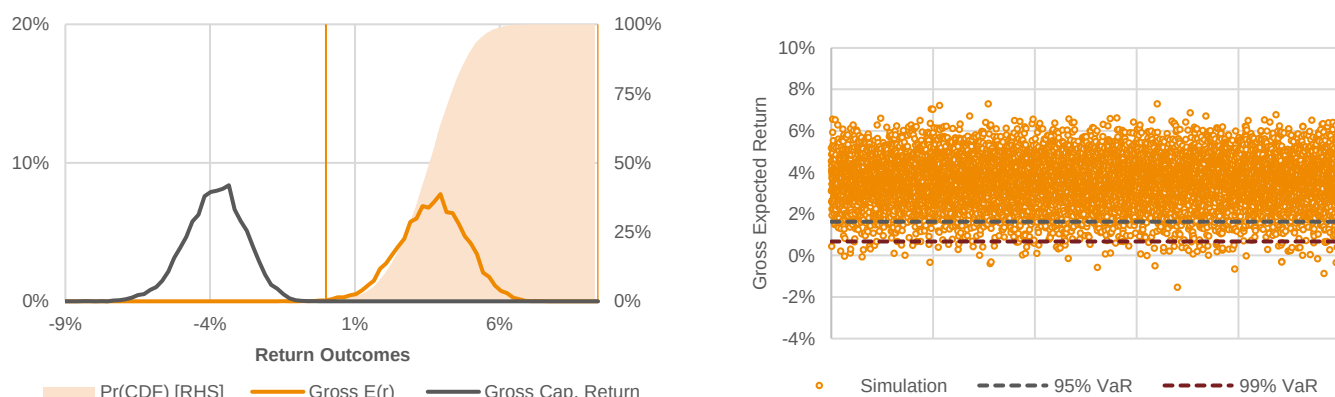
Source: BondAdviser Estimates. Gross capital returns exclude the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's.

Additionally, we have modelled the portfolio under a distressed scenario, using default rates and recovery rates experienced broadly across the GFC in the US. For the Australian credit portfolio, we have assigned credit ratings based on the LVRs in the underlying portfolio, however given the opaque nature of the Australian loan market we have used broad default and recovery rates experienced globally across corporate loans. This may result in different modelling to actual empirical returns (namely through higher than empirical default rates and lower than empirical recovery rates)

The portfolio still performs exceptionally well under distressed modelling, with limited simulated losses across the scenario. Only 0.16% of the 10,000 simulations (16) result in a loss being incurred despite the portfolio being simulated under highly punitive

conditions. Returns are considerably more dispersed, but simulated returns in the negative tail are infrequent in our distressed modelling. The median modelled return was 3.61%, with a 99% and 95% VaR of 0.67% and 1.63%, respectively.

Scenario 2. Stressed Asset Assessment (2009 Data)



Source: BondAdviser Estimates. Gross capital returns exclude the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's.

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

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	64.9%	35.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.5%	71.6%	23.3%	1.9%	0.9%	0.7%	0.7%	0.5%
A	0.6%	0.9%	80.9%	13.6%	1.2%	1.3%	0.7%	0.8%
BBB	0.0%	0.1%	1.3%	87.8%	6.5%	1.5%	1.3%	1.6%
BB	0.0%	0.0%	0.2%	4.8%	72.5%	14.3%	3.1%	5.1%
B	0.0%	0.0%	0.2%	1.0%	3.9%	69.4%	15.9%	9.7%
CCC	0.0%	0.0%	0.3%	1.4%	1.4%	9.0%	52.2%	35.8%

Source: BondAdviser, Moody's

* Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.

Table 5. Scenario 2 – APAC Structured Finance Migration Rates (2009)**

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	99.1%	0.3%	0.3%	0.3%	0.0%	0.0%	0.1%	0.0%
AA	2.8%	94.0%	0.6%	1.3%	0.2%	0.0%	0.7%	0.4%
A	2.9%	4.0%	88.5%	1.4%	0.7%	0.7%	0.7%	1.1%
BBB	3.6%	0.0%	2.4%	86.9%	3.2%	1.6%	0.4%	1.9%
BB	0.0%	0.9%	0.0%	0.9%	89.9%	5.4%	0.2%	2.8%
B	0.0%	0.0%	0.0%	0.0%	3.2%	83.9%	6.5%	6.5%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	50.0%	50.0%

Source: BondAdviser, Moody's

** Uses the average of S&P and Moody's data.

Under our modelling, the Fund provides stable returns in simulations of a benign environment and exhibits robust downside protection under stressed conditions. This is driven significantly by a **diversification of underlying assets** and by the **seniority of the assets** (driving stronger LGD outcomes).

We are aware and highlight the many deficiencies of our approach, not least that:

- It does not consider the additional protections implemented by La Trobe and Morgan Stanley to mitigate credit migration or default risks, nor account for the restructuring capabilities in the event of distress or default.

- Our modelling contains assumptions, several of which are subjective and have material output impacts.
- Unrated assets have been assigned ratings and are our best estimates based on margins of similar assets, or in the case of commercial real estate loans, based on loan to value ratios.
- The Australian real estate loan portfolio has been modelled using rating migration and recovery data consistent with empirical data experienced across corporate loans, given these loans are unrated and recovery data is not widely available. This may result in simulated returns that are worse than what has empirically been observed across the Australian real estate loan market.

The quantitative framework defines the forward-looking risk score for our overall product assessment of the Fund. This is consistent with the BondAdviser Fund Research Methodology and overlays an objective evaluation to our recommendation. On the basis of our analysis, **we assign the Fund a risk score of 'High' or 'BB'.**

This risk assessment does not account for the previously mentioned expertise of La Trobe and Morgan Stanley in avoiding defaults and instead assumes that assets would be held to default, without stipulating any restructuring activities. In reality, borrowers and securitisation vehicles are actively researched, followed, and subjected to many levels of scrutiny and oversight. We expect that, in-line with demonstrated history, assets would be managed prior to such an event occurring.

Research Methodology - Overview

Overview

At BondAdviser, our focus is on delivering the highest quality data, research and insights so that investors can make intelligent decisions about the fixed income market. At the centre of our approach is a proprietary 5-pillar process for analysing fixed income funds in a rigorous and disciplined manner. Our approach results in a recommendation scale that investors can readily use to identify the most attractive investment opportunities.

Our ability to provide a clear and concise investment recommendation from the very diverse and unique fixed income portfolios and funds within our coverage universe is a key benefit of our research process. We simplify an otherwise complex procedure for investors into a simple, recognisable and consistent recommendation scale.

We use a bespoke combination of qualitative assessments and forward-looking quantitative analysis. In our experience, most other research is backwards looking, which naturally limits its usefulness. By combining our deep understanding of fixed income markets and their emergent trends with our extensive modelling and forecasting capabilities, we aim to solve this limitation and output meaningful, risk-adjusted prospective recommendations for investors.

Research Approach

BondAdviser has adopted a multi-pillar, risk-based approach to the assessment of funds. In our opinion, an investor's exposure to credit risk is not uniform and can be well mitigated by manager skill, experience and supporting governance structures. We identify 5 key pillars of credit risk mitigation and these then form sections of analysis in our reports:

- Investment Objectives, Strategy and Performance
- Portfolio Construction and Investment Process
- Liquidity, Operating & Financial Risk Management
- Governance, Asset Stewardship and Compliance
- Quantitative Analysis

Research Process

The initial screening of funds and assets is based on a globally recognised best practices approach to alternative assets as defined by the Alternative Investment Managers Association (AIMA) and risk management as identified by the International Organisation of Securities Commissions (IOSCO).

All assets and managers must meet minimum requirements as outlined in our initial due diligence questionnaires. Detailed interviews, operational checks, process documentation and data collection then follow. Each of these steps helps to ensure that our recommendations are consistent and are based on a comprehensive understanding of the key drivers of the underlying market segment and asset class(es), the investment manager and broader portfolio.

Classification

We broadly adhere with international and Australian accounting standards and global best practice in designating assets according to their place in the fair value hierarchy defined in International Financial Reporting Standard 13 (IFRS13) - Fair Value Measurement (Australian version – AASB 13). All assets designated as "Credit" fall under three categories based on market observability as outlined below:

- **Level 1 (Active Markets)** - assets that have quoted prices in active markets, providing the most reliable evidence of fair value. As a result, transactions for these assets can generally occur at this price as at the measurement date. Domestically, typical examples of Level 1 assets include Australian Government Commonwealth bonds, listed debt and hybrid instruments and RBA repo-eligible financial instruments.
- **Level 2 (Non-Active Markets)** - assets that have observable prices (directly or indirectly), not included within the Level 1 category (i.e. not quoted on an exchange). Assets referencing credit

spreads and interest rates would qualify if the input is observable for the full tenor. This category generally encompasses credit markets which have limited secondary market activity such as corporate bonds, subordinated debt and syndicated loans.

- **Level 3 (Illiquid and Alternative Credit)** – assets that have mostly unobservable inputs and hence valuation models are used, driven in part by assumptions and expectations. There may be an independent overlay and a model risk adjustment to derive an exit (market) price. A limited secondary market is typical and these assets are often referred to as alternative credit. Examples of this segment include “structured” credits such as RMBS, CMBS, ABS and private debt investing.

Product Assessment

The BondAdviser Product Assessment is the culmination of our research process applied to our pillar-based research approach. We conclude whether a fund is screened-out, approved, recommended or highly recommended as broadly defined below:

- **Screened Out** – The fund does not (or no longer) satisfies our minimum criteria for research inclusion.
- **Approved** – Our research allows us to conclude that the fund manager, governance structure, policies and procedures appear to be sound and capable of managing the fund adequately to target its benchmark.
- **Recommended** – We have a reasonable expectation that the fund will achieve its target benchmark.
- **Highly Recommended** – We believe that superior skills, systems and processes mean that the fund has a high likelihood of meeting and probably exceeding its benchmark target. Note that we only Highly Recommended assessments after issuing multiple reports over an extended period of time

Risk Score

Our Risk Score is aligned to the same methodology that is utilised in BondAdviser’s single-instrument reports. It is not a credit rating and should not be used as such.

- AAA – Very Low
- AA – Low
- A – Lower Medium
- BBB – Upper Medium
- BB – High
- B – Very High
- CCC – Extreme
- D – Default (Fund Closed)

Our overall Risk Score is driven by the underlying credits of a fund coupled with our quantitative analysis. It is mutually exclusive to the Product Assessment. For example, it is possible for a fund to be Highly Recommended and have a risk score of CCC. This could occur where the fund invests in riskier credit assets but we are very confident of its capability to meet or exceed its benchmark target. Conversely, a fund comprising mostly of government bonds may hold a Risk Score of AAA but its governance processes, history and controls are not as strong as peers and warrant only an Approved assessment.

Alternative Investment Fund Research Methodology

[Click here to view](#)

Important Information

BondAdviser has acted on information provided to it and our research is subject to change based on legal offering documents. This research is for informational purposes only. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice.

The content of this report is not intended to provide financial product advice and must not be relied upon or construed as such. The statements and/or recommendations contained in this report are our opinions only. We do not express any opinion on the future or expected value of any Security and do not explicitly or implicitly recommend or suggest an investment strategy of any kind.

This report has been prepared based on available data to which we have access. Neither the accuracy of that data nor the research methodology used to produce the report can be guaranteed or warranted. Some of the research used to create the content is based on past performance. Past performance is not an indicator of future performance. We have taken all reasonable steps to ensure that any opinion or recommendation contained in the report is based on reasonable grounds. The data generated by the research is based on methodology that has limitations; and some of the information in the reports is based on information from third parties.

We do not therefore guarantee the currency of the report. If you would like to assess the currency, you should compare the report with more recent characteristics and performance of the assets mentioned within it. You acknowledge that investment can give rise to substantial risk and a product mentioned in the reports may not be suitable to you.

BondAdviser will receive a licensing fee from the Manager and/or its advisors in relation to this research report. BondAdviser Asset Management, BondAdviser, or investment vehicles which either control, may invest in the Fund.

You should obtain independent advice specific to your particular circumstances, make your own enquiries and satisfy yourself before you make any investment decisions or use the report for any purpose. This report provides general information only. There has been no regard whatsoever to your own personal or business needs, your individual circumstances, your own financial position or investment objectives in preparing the information.

We do not accept responsibility for any loss or damage, howsoever caused (including through negligence), which you may directly or indirectly suffer in connection with your use of this report, nor do we accept any responsibility for any such loss arising out of your use of, or reliance on, information contained in or accessed through this report.

© 2025 Bond Adviser Pty Limited. All rights reserved.