SQM RESEARCH

Millbrook Credit Fund

This report has been prepared for financial advisers only

Favourable

May 2023

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

Currency of Reports

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Report Date: 25 May 2023

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	**Highly suitable for inclusion on APLs** *SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.*	High Investment grade
4¼ stars	Superior	**Suitable for inclusion on most APLs** *SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.*	High Investment grade
4 stars	Superior	**Suitable for inclusion on most APLs** *In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.*	High Investment grade
3¾ stars	Favourable	**Consider for APL inclusion** *SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.*	Approved
3½ stars	Acceptable	**Consider for APL inclusion** *In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.*	Low Investment grade
3¼ stars	Caution Required	**Not suitable for most APLs** *In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.*	Unapproved
3 stars	Strong Caution Required	**Not suitable for most APLs** *In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.*	Unapproved
Below 3 stars	Avoid or redeem	**Not suitable for most APL inclusion**	Unapproved
Event-driven Rating		**Definition**	
Hold		*Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.*	
Withdrawn		*Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.*	

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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SQM Rating ★★★★½

Favourable. Consider for APL inclusion.

Fund Description	
Fund Name	Millbrook Credit Fund
APIR code	MMM8312AU
Asset Class	Mortgage Fund
Management and Service Providers	
Fund Manager	Millbrook Asset Management Ltd
Responsible Entity	Millbrook Asset Management Ltd
Fund Information	
Fund Inception Date	2007†
Fund Size	$115m at Feb-2023
Return Objective (per PDS)	3% to 4% above the cash rate net of fees
Internal Return Objective	As above
Risk Level (per PDS)	Medium
Internal Risk Objective	Risk management processes to limit the likelihood of loss of investor capital and income
Benchmark	Bloomberg AusBond Bank Bill Index plus 1.50%
Number of stocks/positions	79
Fund Leverage	Nil
Portfolio Turnover	120% on average and in the 2022 calendar year
Top 10 Holdings Weight	20.7%
Investor Information	
Management Fee	There are no direct fees charged to investors*
TCR (Total Cost Ratio)	See above
Buy Spread	Nil
Sell Spread	Nil
Performance Fee Rate	Nil
Minimum Application	$10,000
Redemption Policy	Varies by investment option. Conditions apply. See PDS
Distribution Frequency	Monthly
Investment Horizon	At least 12 months typically
Currency Hedging Policy	Not applicable

† The Fund was first established in 2007, though it was acquired by its current owner in 2017. For this report, we consider the Fund's track record from 2017.

* The Manager charges establishment and other fees to borrowers and also typically earns a direct interest margin of 1.5% to 2% on each loan

Fund Summary

Description

The **Millbrook Credit Fund (the "Fund", previously named the Millbrook Mortgage Fund)** is an open-ended unlisted, registered managed investment scheme.

Millbrook offers first mortgages on residential, commercial, and industrial property in Australia for investment or construction. The Fund aims to provide first mortgage loans to approved borrowers predominately along the Eastern seaboard. Loans can be made to individuals or companies. The Fund targets returns of 3% to 4% above the RBA cash rate for investors, net of Millbrook's fee. Investor returns come in the form of monthly distributions, which largely pass through monthly interest payments from borrowers.

Millbrook offers two investment options.

- Select Option: investors select the specific loans in which they invest. Each loan has its specific risk, rate of return, and terms and conditions. This is a contributory or peer-to-peer mortgage investment where one or more investors invest in a specific mortgage loan, and each is allocated a fractional economic interest in the loan. The principal invested is returned to investors on the maturity of the selected loan (maximum three years).
- Diversified Option: this is a pooled option that combines funds from different investors and invests in underlying loans that are similar to the loans that are offered in the Select Option. The Millbrook management team makes investment decisions. New loans are added to the pool as existing loans mature and investor funds flow into the pool. The minimum investment period for this option is 12 months, and withdrawal applications require 90 days written notice.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
3.75 stars	Favourable	Consider for APL inclusion	Approved

Previous Rating: 3.75 stars (Issued June 2022)

SQM Research's Review & Key Observations

About the Manager

Millbrook Asset Management Ltd ("Millbrook", the "Manager", previously Millbrook Mortgage Management Ltd) is owned by David Lyall and is the Investment Manager and Responsible Entity for the Fund. The Fund was established in 2007 and operated under a different name until it was purchased by David Lyall in 2017. He combined it with his existing real estate finance operations which together comprise three distinct but similar businesses with combined assets under management of around $300m. The Fund has more than tripled in size in the last three years to $115m. The Manager and its related entities (the "Millbrook Group") are based in Melbourne and have around 15 employees, most of whom are in asset management or investor-facing roles. It also engages a handful of independent directors and external members of its Credit Committee. The Millbrook Group remains 100% owned by David Lyall, also its Managing Director.

The Manager hopes to continue to grow rapidly and has substantially replaced and expanded its distribution team to support its ambitions. It hopes to widen its investor base by attracting high-net-worth clients and others who often use financial planners, professional advisors, or fund managers to place their funds. It believes its reputation for treating clients and brokers well and having good customer service will help it increase its broker network, get on platforms, and attract more investors.

Investment Team

Millbrook's credit processes are mostly managed by its credit team and Credit Committee. All credit team members, who lead loan application assessment, are relatively new to Millbrook. Head of Credit Colin Robinson, who has a broad range of real estate finance experience over more than 20 years, joined early in 2022. Senior Credit Analyst Andrew Christensen joined a year ago.

The Credit Committee includes Colin Robinson and David Lyall, plus two others. It is mainly involved in loan approval. While Millbrook's investment team includes highly experienced professionals, they haven't worked together for long. Some key person risk exists in David Lyall. However, his significant ongoing investment suggests he is highly committed to the Millbrook Group for the foreseeable future.

1. Investment Philosophy and Process

Investable Universe

The Fund only invests in registered first mortgages, mostly on established or unimproved residential property and a small amount for the construction of residential properties. The Fund also lends on industrial and commercial property that is improved or under construction. It mainly lends to self-employed individuals, business entities (companies) or investors for terms of up to three years. Loan purpose predominantly includes business and investment and may also include bridging finance to purchase or change properties. The Fund does not lend against specialised assets such as childcare centres, hotels, or rural holdings fit only for agricultural purposes.

Philosophy / Process / Style

The fund seeks to provide investors with the opportunity to invest in first mortgages offering returns of between 3% and 4% above the RBA cash rate net of fees. It looks to offer opportunities that provide regular monthly income where investor capital is secure. To this end, it looks to obtain quality first mortgage loans predominately along Australia's Eastern seaboard. It has developed sound lending principles, codified in its Group Credit and Lending Policy, which minimises the potential for loan default. The Manager notes that it has never lost any investor funds.

Loans are mostly sourced via brokers, and the Manager has successfully reduced its heavy concentration of loans to Melbourne, which now make up around half of Fund assets. Loan assessment includes examining the borrower's level and sources of income and net wealth, focusing on the quality and value of the property to be mortgaged. Rules exist about the requirements of security valuation, and valuers must be accredited. Loan-to-valuation ratios (LVRs) generally do not exceed 70%.

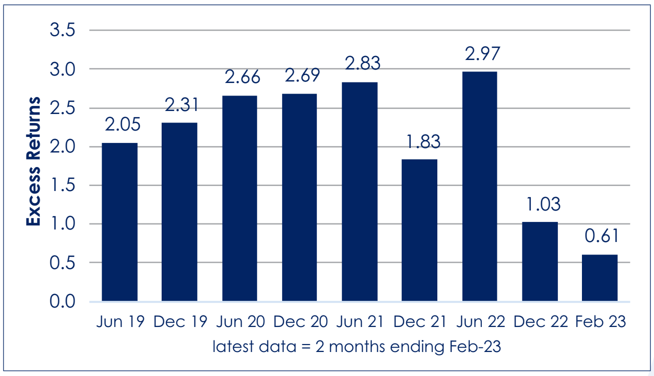
Investors can invest via the Diversified Option (pooled) or Select Option (contributory). Select Option investors will regularly be offered opportunities to invest in specific loans.

2. Performance & Risk

Return Objective

The return objective stated in the PDS is: "3% to 4% above the cash rate net of fees". The Fund's benchmark, as stated in the PDS, is the Bloomberg AusBond Bank Bill Index plus 1.50%.

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Fund was established in 2007, though it has changed hands several times. The most recent change of ownership was in 2017 when David Lyall acquired it. For this report, we consider the Fund's track record from this time. As such, the Fund has a history of 5.3 years (or 64 months) since being acquired by its current owner.

Observations and analysis of returns will have significant statistical meaning as a result of the sample size of observations.

Risk Objective

The Fund's PDS states that the risk level of the Fund is "Medium".

The true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/ capital loss, liquidity, concentration, and interest rates risk. Advisers/Investors should read the PDS to understand those risks.

The Fund offers Select Option investors exposure to mortgages with differing loan characteristics. As such, investors can select mortgages most suited to their risk and liquidity profile.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these funds have a low level of risk. The low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, fund metrics such as Volatility, Tracking Error, Information Ratio and Sharpe Ratio; add little statistical value within the Mortgage Funds sector.

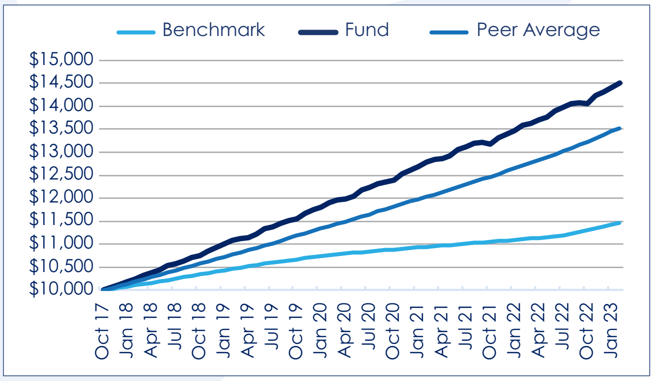
Fund Performance to 28 February 2023 (% p.a.)							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	0.74	1.93	3.26	6.87	6.82	7.21	7.23
Benchmark	0.36	1.13	2.16	3.28	2.17	2.57	2.61
Peer Average	0.53	1.62	3.31	6.43	4.92	5.28	5.31
Alpha	0.38	0.80	1.10	3.59	4.65	4.64	4.62

With dividends reinvested. Returns beyond one year are annualised. Return history starts Nov-2017.

Benchmark: Bloomberg AusBond Bank Bill + 1.5%

Note: These are overall returns at the Fund level. With a choice between the Select Option, which offers 'peer to peer' mortgages, and the Diversified Option, which pools multiple mortgages, investors' returns vary according to their selections.

Growth of $10,000



Strengths of the Fund

- The rate of return to investors on each Select Option loan is established in advance. Transaction-specific interest rates recognise the individual risk inherent in each loan.
- A first mortgage secures each loan; therefore, individual investors are secured for their fractional interest in the Fund.
- Investors do not pay any direct fees.
- The Fund is exposed to smaller loans on average.
- Loans are typically shorter term, averaging 12 months.
- The Manager's access to lending opportunities from a wider broker network enables it to be more selective when funding individual loans and introduce greater geographical diversity into the portfolio.

Weaknesses of the Fund

- Repayment of capital to Select Option investors depends on individual borrowers meeting their repayment schedule to the Fund.
- An investor may not be able to protect their capital in a timely manner, given the illiquidity of the investment.
- High exposure to residential property.
- Investors do not enjoy the protections afforded investors in term deposits and government-guaranteed holdings in Approved Deposit-taking Institutions (ADIs).

Other Considerations

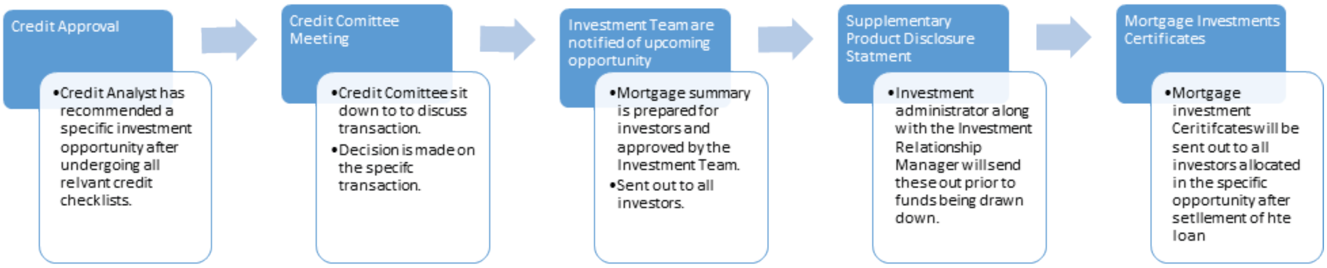
- The Fund targets returns above those typically achieved from traditional fixed interest, term deposits, or credit-managed funds. This is not achieved without a commensurate increase in risk which is not simply measured by volatility alone. Other risks that investors should recognise include credit risk, illiquidity, property development risks, market risk and exposure to only certain property types, and geographic concentration, though this is less than previously.
- The Select Option offers investors exposure to mortgages with differing loan characteristics. As such, investors can select mortgages most suited to their risk and liquidity profile.
- Having the same entity as Investment Manager and Responsible Entity raises the potential for a conflict of interest. However, the Manager's Board of Directors has one independent member, and two members of its Compliance Committee are independent.

- The returns on the Fund are largely dependent on the supply and demand for loans. Demand will be influenced by broader economic conditions and the requirement to fund loans.
- Having previously only written fixed-rate loans, all loans written since September 2022 have a variable interest rate.
- The maximum allowable term for loans is three years, though none currently have terms greater than 24 months.

Key Changes since the Last Review

- No changes to the investment process since the previous review.

Investment Process Diagram



Process Description

Investment Process

Research and Portfolio Construction Process

Loan Origination

Loans are sourced via brokers, past clients and by word of mouth. Loan origination was significantly strengthened with the recent appointment of the Manager to the approved lender panel of Vow Financial, an aggregator with approximately 100 commercial brokers in its network. The flow of enquiries has increased substantially following this development.

While brokers provide a stream of loan opportunities with some pre-vetting, it is beholden on the Manager to conduct in-depth due diligence on each application to ensure borrowers are of appropriate quality. SQM Research believes a well-diversified source of loan origination is desirable as it will encourage a broader and more sustainable demand for loans and investment opportunities for investors.

Geographic Preferences

Over 90% of loans have been sourced from Melbourne historically though the Fund started introducing more diversification around the start of 2022. In recent months between 50% and 60% of the Fund has been made up of Melbourne-based loans, with around a quarter from Sydney, roughly 10% from regional Victoria, and small percentages from Brisbane, Perth and Hobart. The Manager would like to reduce the Fund’s concentration to Melbourne even further in favour of Sydney and would be happy to access loans from Adelaide as suitable opportunities arise.

Due Diligence

Loan applications are assessed according to the Manager’s Lending and Credit Policy. The main areas of interest are the applicant’s financial standing and the quality and value of the property to be mortgaged. The purpose of the loan is also a key consideration.

Borrower Analysis

Loan assessment includes examining the borrower’s level and sources of income and net wealth. Income is key to the Manager’s assessment of a borrower’s ability to service a loan, which examines whether they can afford to make repayments while considering all of their other liabilities. The borrower’s assets and liabilities must also be ascertained to assess whether they convey overall financial strength and a history of sound financial decision-making.

Supporting documentation and evidence are required, including the borrower’s latest financial accounts and tax returns. Consideration is given to the applicant’s occupation, employment, and length of time employed in that particular position. Specific evidence required may include either pay slips for those that are employed or historical financial statements for self-employed applicants.

Investment Process

Research and Portfolio Construction Process

...continued

Compliance checks are undertaken using check sheets throughout the process up to settlement. External sources of information sought to include a recognised credit agency report on all borrowers, guarantors, and related parties. A bankruptcy search on all borrowers and guarantors is undertaken, as is an ASIC company search for any corporate borrower.

Valuation Policy

Loan assessment also closely examines the property that will form the security for the loan. The Manager examines whether the property meets the requirements of its credit policy, is in a metro location, and if sufficient demand exists for this specific property type in its location. The mortgaged property is a key factor determining the loan structure and provides additional assurance, along with the applicant's financial strength, that the Fund will be repaid at the end of the loan term.

The Manager requires a registered property valuation to be conducted for all transactions. It must be provided by a reputable valuer who is external, independent and a member of an appropriate professional body in the jurisdiction in which the property is located. The Manager maintains a panel of professional property valuers, which it calls upon for most property assessments. It looks to rotate across valuers over time. It may, at times, also use licensed Real Estate agents and online providers such as CoreLogic for valuations. Among the main factors valuation must consider about the subject property are location, type, purpose, sales history, specific features or limitations, and special conditions.

Valuation is required before the issue of a loan. Where a loan is for construction or development purposes, the valuer will determine an 'as if complete' value and an estimated cost of completion of the works. During the construction or development works, the Manager can, at its discretion, accept a more limited valuation or a report by an independent quantity surveyor or civil engineer instead of a valuer concerning the assessment of drawdowns.

The Manager may waive the requirement for formal valuation where the LVR is less than 50% of the value of the property or where a loan for an initial term of 12 months or less is renewed at maturity, and the previous valuation was carried out less than 15 months before the renewal date. There are other circumstances where the Manager may require a valuation of a mortgaged property, including within two months of the directors forming a view that there is a likelihood that a decrease in the value of security property may have caused a material breach of a loan covenant.

Loan assessment also looks to understand the purpose of the loan, inquiring about the borrower's requirements and objectives. These may include the amount of credit needed or the maximum amount sought, the timeframe for which it is required, and the purpose and benefit sought.

Loan Approval

Once a credit analyst has undertaken all relevant credit assessment processes and recommended a specific investment opportunity, the required approvals vary depending on loan size.

- Up to $1.5 million: Managing Director solely, or otherwise any two Credit Committee members jointly.
- $1.5 million to $3 million: Managing Director jointly with another Credit Committee member, or otherwise any two Credit Committee members jointly.
- $3 million to $5 million: Any two Directors and one Credit Committee Member jointly.
- Over $5 million: Board approval required.

Investment Process	
Research and Portfolio Construction Process ***...continued***	Loans are priced by the Manager's Credit Committee, considering the borrower's assessed creditworthiness, the security property's location and value, and the loan's term. This enables Millbrook to match risk to targeted return for each loan. The minimum loan size is $100,000, with no maximum. Most loans have terms from three to 24 months, and all have variable interest rates, having until recently all had fixed interest rates, which historically ranged between 6.0% and 9.5% p.a.. All loans must be secured, with a loan-to-valuation ratio (LVR) not exceeding 70%. **Borrower Fees** Borrowers are charged an establishment fee (usually 1.5% to 2% of the loan amount plus GST) upfront and a monthly account administration fee of $22.00 plus GST. Costs for legal fees, valuation fees, broker fees and security registration fees are collected from loan proceeds at settlement and passed onto the relevant service providers. Additional fees that may be charged include an early termination fee, dishonour fee, default realisation fee, loan discharge fee, loan renewal fee, pre-settlement arrangement fee, capital reduction fee and security review and variation fee. **Portfolio Construction** Approved loans are funded by investors in either the Diversified Option (pooled) or the Select Option (contributory). Investors choose between these options when they submit their applications to the Fund. Investors in the Select Option initially have their monies deposited in the Manager's Investor Trust Deposit (ITD) account. If the Manager decides that Select Option investors should fund an approved loan, it will forward the necessary documents, including pertinent loan details, to individual investors inviting them to finance that specific loan, or "Select Mortgage Investment", as referred to in the PDS. The amount each investor is invited to contribute is set by the Manager. If an investor accepts, their funds will be transferred from the ITD account to the Select Mortgage Investment. They will be allowed to add to their balance in the ITD account if it is insufficient to fund the investment. The investment period will match the loan term, and the return for the investor will be the interest rate payable by the borrower less a management fee, which is usually 1.5% to 2% p.a.. The investor bears the credit risk of the loan directly. The Manager will only consider loans greater than $2m or for longer terms of up to three years if an appropriate pool of Select Option investors can be identified beforehand. An alternative arrangement for Select Option investors is to allow the Manager to allocate all or part of their ITD account investment in Select Mortgage Investments at the Manager's discretion. In practice, the Manager seeks approval from all Select Option investors before allocating their funds to a specific loan. Investors in the Diversified Option have no discretion to choose specific loans in which to invest but benefit from the risk mitigation that comes from investing in a diversified portfolio of loans. Investment in the Diversified Option is for a minimum of 12 months, for a return equal to the interest received on the loans funded by Diversified Option investors, less a management fee, usually 1.5% to 2% p.a.. Interest is distributed to all investors shortly after monthly payments from borrowers are received. Diversified Option investments only account for around $8m of the $115m total invested in the Fund, the remainder being invested via the Select Option.

Investment Process

Research and Portfolio Construction Process

...continued

Risk Management

There are several elements to the management of risk for the Fund. As well as continuous application of the Manager's Lending and Credit Policy, these include the imposition of limits applied at the portfolio and individual loan level, monitoring of market conditions and individual loans, and processes for managing problem loans.

Limits include a maximum of 70% LVR for all loans, a maximum of 20% of FUM to be lent to any one borrower, and total lending for construction not exceeding 30% of FUM. The Manager also strongly prefers loans in metro areas rather than in regional centres. Also, while loan terms generally range from six to 24 months, the average is approximately 12 months, which provides for a relatively rapid turnover, resulting in more frequent opportunities for the return of capital to investors and reducing interest rate risk.

The Manager keeps abreast of market conditions by reading widely, including reports from brokers and financial intuitions. It also maintains regular contact with market participants such as property developers and attends various presentations on credit and lending and the property market. The management team meets monthly to discuss the state of the market and potential red flags from a property, client, and investor perspective. The loan book is reviewed in this meeting to ascertain and identify any borrower at risk. Interest repayments are monitored daily for non-payment.

Arrears Management

Arrears are closely managed. If a missed payment is not made after seven days, the borrower is contacted by email and telephone for an explanation and to provide an expected date for payment. If payment is not received within 30 days of the initial due date, default notices are issued, and the relevant investors are notified. If the risk is acceptable, the Manager may continue to cover the interest on the loan while arrangements are made to ascertain if the client is seeking to refinance or sell the property. Once a loan becomes three months overdue, recovery processes may include legal action to retrieve the outstanding debt by way of a mortgagee sale. Interest payments in arrears are charged a penalty rate of interest. The risk of loss on individual loans is borne by the investors that fund the loan, whether through a Select Mortgage Investment or the Diversified Option.

The Manager does not make provisions for loan impairment. It notes that if a loss were to be made on a loan, it could be recovered through a Mortgagee in possession sale. If a shortfall remained after this, the Manager would pursue the loan's guarantors. The Manager notes that no Fund investor has incurred a loss of capital or interest to date.

Portfolio Characteristics

Portfolio Turnover

Portfolio turnover was slightly less than 120% in the 2022 calendar year, which was in line with the average annual turnover for the last five calendar years.

Liquidity

The vast majority of Fund assets are fixed-term loans, mostly for six to 24 months. Fund liquidity is provided either by loan expiry and loan principal repayment or interest payments from borrowers, which are passed on to investors, less management fees.

Investment Process

Research and Portfolio Construction Process

...continued

Select Option investors have their monies tied up for the terms of the loans they choose to finance. Investments not yet allocated to specific loans, and held in the ITD account, can be withdrawn on seven days written notice. Diversified Option investments have a minimum term of 12 months but no fixed maturity date. Redemption of Diversified Option investments is via application which must be submitted 90 days in advance. Other conditions apply to withdrawals and are detailed in the PDS.

Leverage

This Fund does <u>not</u> employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

Key Statistics	Fund
Market Value ($m)	$115,244,891
No. Positions	79
Avg Borrower Rate	8.78%
Years to Maturity	12-18 months
Interest Type	**Weight**
Fixed	61.16%
Variable	38.84%
Maturity Profile - years	**Weight**
0-2	100.00%

Sector Profile	Weight
Residential - Investment	52.87%
Construction	8.11%
Commercial	9.53%
Industrial	0.99%
Vacant Land	20.37%
Rural	5.36%
Cash	2.77%

Geography Profile	Weight
NSW	24.45%
QLD	5.07%
VIC	55.43%
WA	1.45%
TAS	1.74%
Other	11.87%

Loan Type	Weight
Full-doc	100.00%
Conforming	100.00%
First Mortgage	100.00%

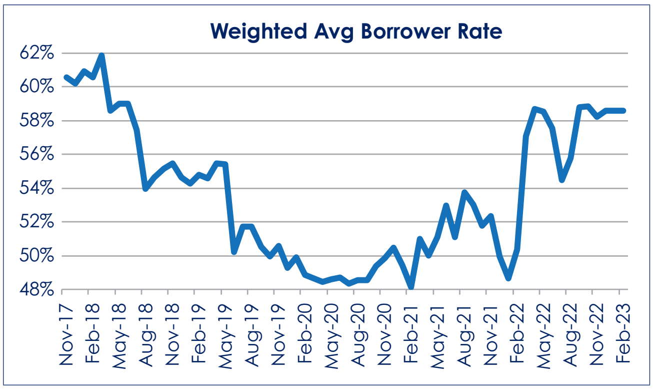
Loan Purpose	Weight
Bridging facility	0.45%
Construction	14.85%
Equity for investment	27.04%
Working capital	0.70%
Investment	1.59%
Purchase	15.30%
Refinance	40.07%

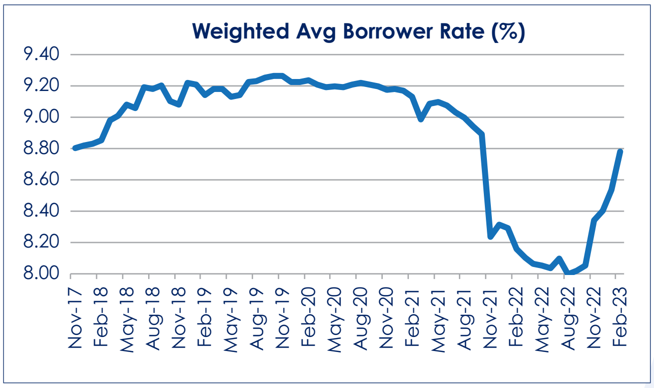
Top 5 Loans by Weight (% of Fund)

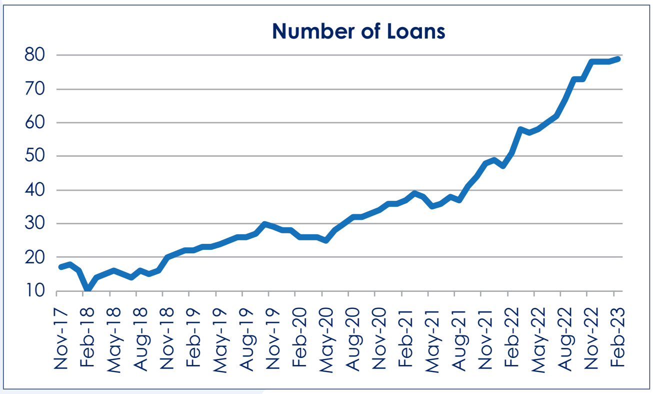
Name	Weight
AURUM VILLAGE PTY LTD	7.16%
SYNDICATE 12 SQUARED PTY LTD	4.94%
ROMSEY PROJECTS PTY LTD	4.66%
ORBAL MARKETING SERVICES PTY LTD	4.31%
AUSFORCE CONSULTING PTY LTD	3.95%

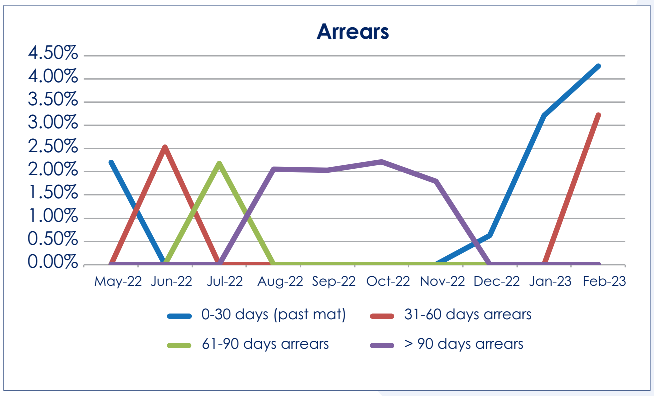
LVR	Weight
	58.58%

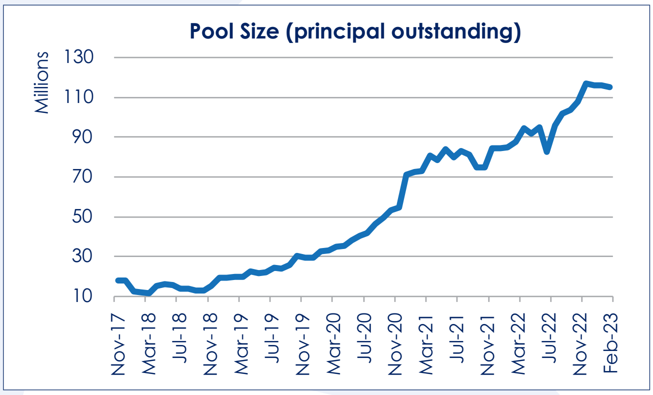
Historical Trends

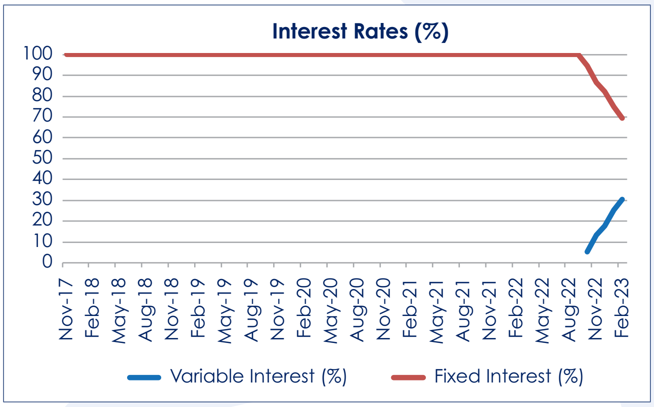












Key Counterparties

Parent Company / Fund Manager

David Lyall owns the Millbrook Group of companies through an entity called David Lyall Holdings Ltd and includes the Manager (i.e. Millbrook Asset Management Ltd), Millbrook Finance Pty Ltd and Millbrook Funds Pty Ltd. They are all mortgage lenders operating in slightly different product or client markets, and the same business operation supports all. Between them, they manage around $300m of FUM.

Millbrook Asset Management Ltd was purchased by David Lyall in 2017 as a going concern to complement the other businesses within the Millbrook Group. The Millbrook Credit Fund was much smaller at the time of this purchase. It has more than tripled in size in the last three years to $115m, and the Manager has plans for further rapid growth in FUM. It has grown its resources, including in the credit and distribution functions, in the last 12 months to support its growth ambitions.

Governance

Responsible Entity

The Board of Directors of the Responsible Entity (Millbrook Asset Management Ltd) consists of **3** directors, **1** of whom is independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **26** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **3** members, **2** of whom are independent. The Chair **is** independent. SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **36** years of industry experience.

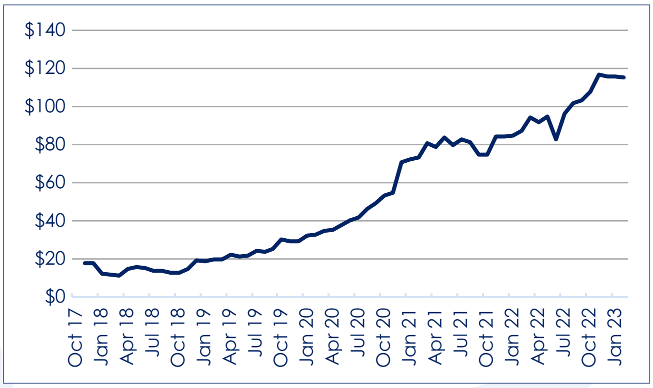
Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that the Manager and associated key counterparties are qualified to carry out their assigned responsibilities. Management risk is rated as modest.

Funds under Management (FUM)

FUM for Fund under Review ($mill)



Distributions

Distributions occur monthly, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Qualifications
David Lyall	Managing Director	Melbourne	5.0	20.0	B. Law
George Lyall	Business Development Manager	Melbourne	3.0	10.0	B. Fin, Dip. Build & Constr
Colin Robinson	Head of Credit	Melbourne	1.4	30.0	B. Ec, Gr.Dip. Fin & Mort Brok, Gr.Dip. App Fin & Inv
Andrew Christensen	Senior Credit Analyst	Melbourne	1.0	10.0	BA (Hons)
Thomas Robinson	Credit Analyst	Melbourne	1.0	2.0	B. Fin
Andrew Slattery	Head of Investments	Melbourne	0.2	15.0	B. Comm, Gr.Dip. Bank & Fin, Dip. Fin Plan
Peter Mill	Head of Distribution	Melbourne	0.2	25.0	MBA (UNSW)

Investment Team

Millbrook's credit processes are mostly managed by its credit team and Credit Committee. All credit team members, who lead loan application assessment, are relatively new to Millbrook. Head of Credit Colin Robinson joined early in 2022, and Senior Credit Analyst Andrew Christensen joined a year ago. There is a third team member, Credit Analyst Thomas Robinson.

Colin Robinson has a broad range of real estate finance experience over more than 20 years. This includes leadership roles in banks and funds management businesses, in sales and risk management roles. Andrew Christensen has over ten years of finance sector experience, including more than five years in a similar role with La Trobe Financial.

The Credit Committee includes Colin Robinson, David Lyall, Business Development Manager George Lyall, and independent director Matthew Bush. The main role of the Credit Committee is in loan approval. All loans must be approved by members of the Credit Committee, with specific requirements varying depending on loan size. For example, loans up to $1.5m require the approval of either David Lyall solely or any two Credit Committee members jointly. Loans above $5m require the majority approval of Millbrook's three-person board of directors, all of whom are also members of the Credit Committee.

George Lyall manages Millbrook's relationships with mortgage brokers, from where the vast majority of loan proposals are introduced. He has been with the Manager for over three years and has 10 years of finance sector experience. Millbrook's business growth will also be driven by its investor relationships team, which has mostly been assembled in recent months. It includes Head of Investments Andrew Slattery, who has over 15 years of experience in private wealth management, and Head of Distribution Peter Mill, who has over 25 years of relevant experience.

While Millbrook's investment team includes highly experienced professionals, they haven't worked together for long. This exacerbates the key person risk that exists in David Lyall. That said, his ongoing investment in the business, and its current momentum, clearly suggest he is unlikely to move away from Millbrook any time soon.

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Credit Meeting	Discuss potential transactions, including if a transaction meets with Millbrook's company risk profile	Once every 2 days or as required	Head of Credit, Managing Director, Credit Analyst and Business Development Manager
Compliance	Quarterly compliance meeting	Quarterly	Managing Director, Head of Compliance, External Compliance Committee Member and Director
Investment Meeting	Discuss new fund relationships, including if a transaction meets with Millbrook's company risk profile	Weekly	Head of Credit, Managing Director, Investment Relationship Manager and Business Development Manager

Meeting	Agenda	Frequency	Participants
Directors' Meeting	Review company operations and issues	Quarterly	Managing Director, other Directors, Head of Finance
Portfolio Meeting	Loan management review	Weekly	Mortgage Manager, Director, Finance Manager, Investor Administrator
Management Meeting	Month ahead	Month Ahead	Mortgage Manager, Director, Finance Manager, Investor Administrator, Investment Relationship Manager

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

As noted above, there have been some key additions to Millbrook's investment and wider team in the last year or so, which aligns with the Manager's growth ambitions. There have also been some departures in that time.

Departures			
Date	**Name**	**Responsibility**	**Reason for Departure**
27-Apr-22	Teddy Kamanga	Investment Relationship Manager	Personal reasons
20-Mar-22	Manaki Hurst	Credit Analyst	Pursue new opportunity
02-Jan-23	Fraser Neale	Investment Relationship Manager	Pursue new opportunity
16-Jan-23	Dave Brownett	Head of Retail Distribution	Restructure
13-Mar-23	Sotirits (Sam) Mantzis	Investor Relationship Manager	Restructure

Additions			
Date	**Name**	**Position / Responsibility**	**Previous Position / Employer**
24-May-22	Fraser Neale	Investment Relationship Manager	Remi Capital
06-Jun-22	Andrew Christensen	Commercial Credit analyst	La Trobe Financial
16-Aug-22	Dave Brownett	Head of Retail Distribution	Distribution Manager / Centuria
12-Oct-22	Sotirits (Sam) Mantzis	Investor Relationship Manager	Wealth Adviser
20-Feb-23	Cassandra Monterio	Investor Relationship Administrator	Insurance -Sales
27-Mar-23	Andrew Slattery	Head of Investments	NAB Private Wealth, Private Client Director
27-Mar-23	Peter Mill	Head of Distribution	Centennial - Head of Private Wealth
24-Apr-23	Beatrix Mongiardim Quaife Marchueta	National Investment Manager	La Trobe Financial, Business Development Manager

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Millbrook's management team determines base salaries in conjunction with its recruiters. Bonuses are paid based on the outcome of performance reviews which are conducted annually. Outside David Lyall's ownership of Millbrook, there are no plans to use the equity in the business as a performance incentive. A meaningful portion of David Lyall's personal wealth is indirectly or directly invested in Millbrook funds, including the Millbrook Credit Fund.

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses function as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees and Costs	Fund	Peer Avg
Management Fee % p.a.	0.00%†	0.89%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	–	–
Total Cost Ratio TCR % p.a.	0.00%	0.99%
Buy Spread %*	0.00%	0.00%
Sell Spread %*	0.00%	0.00%

† The Manager charges establishment and other fees to borrowers and typically earns a direct interest margin of 1.5% to 2% on each loan.

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

Management Fee

There are no direct fees charged to investors.

Performance Fee

The Fund does not charge a performance fee

SQM Research observes that:

- ***The Fund management fee is 0.0% p.a., which is 89 basis points lower than the peer group average of 0.89% p.a.***
- ***The Total Cost Ratio (TCR) is 0.0% p.a., which is 99 basis points lower than the peer group average of 0.99% p.a.***

Borrower Fees

Mortgage Fund Fees / Costs for Borrowers*	Fund
Administration Fee	$50
Loan Establishment Fee	1.0% to 1.5%
Loan Discharge Fee	$1,500
Loan Renewal / Extension Fee	1.5%
Default Realisation Fee	1.5% + GST
Pre-Settlement Arrangement Fee	$550
Default Correspondence	$55
Default Enforcement	$165 / hr
Dishonour Fee - Late Payment Fee	$55
Capital Reduction Cost	$1,500
Payout Calculation and Preparation	$250
Security Review	$1,500
Urgent Settlement Fee	$1,500
Insurance Default Fee	$500
Early Repayment Fee	One Month's Interest
Line Fee	1.0% to 2.0%

* See the glossary at the back of the report for descriptions of the fees listed

Risk/Return Data to 28 February 2023							
Total Return	**1-Month**	**3-Month**	**6-Month**	**1-Year**	**3-Year**	**5-Year**	**Inception**
Fund	0.74	1.93	3.26	6.87	6.82	7.21	7.23
Benchmark	0.36	1.13	2.16	3.28	2.17	2.57	2.61
Peer Average	0.53	1.62	3.31	6.43	4.92	5.28	5.31
Alpha	0.38	0.80	1.10	3.59	4.65	4.64	4.62
Metrics				**1-Year**	**3-Year**	**5-Year**	**Inception**
Tracking Error (% p.a.) - Fund				1.35	1.24	1.08	1.04
Tracking Error (% p.a.) - Peer Average				0.33	0.39	0.38	0.38
Information Ratio - Fund				2.67	3.75	4.32	4.44
Information Ratio - Peer Average				14.71	8.10	8.31	1.51
Sharpe Ratio - Fund				3.89	5.11	5.87	6.04
Sharpe Ratio - Peer Average				31.63	36.37	29.74	30.02
Volatility - Fund (% p.a.)				1.31	1.20	1.05	1.02
Volatility - Peer Average (% p.a.)				0.27	0.34	0.35	0.35
Volatility - Benchmark (% p.a.)				0.37	0.31	0.29	0.28
Beta based on stated Benchmark				0.18	0.04	0.17	0.18

Distributions reinvested. Returns beyond one year are annualised. Return history starts Nov-2017.

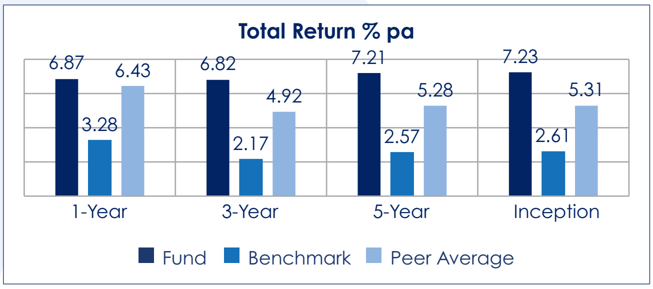
Benchmark: Bloomberg AusBond Bank Bill + 1.5%

Note: These are overall returns at the Fund level. With a choice between the Select Option, which offers 'peer to peer' mortgages, and the Diversified Option, which pools multiple mortgages, investors' returns vary according to their selections.

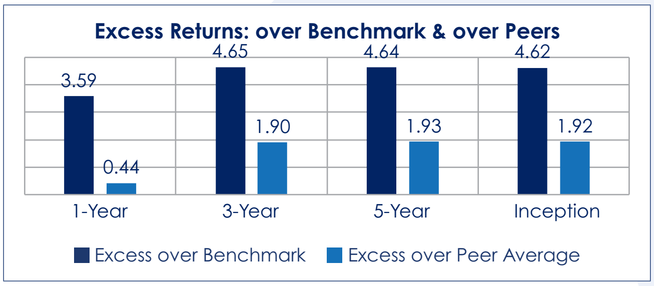
Quantitative Insight[1]

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Feb-2023.**

Returns



Excess Returns (Alpha)



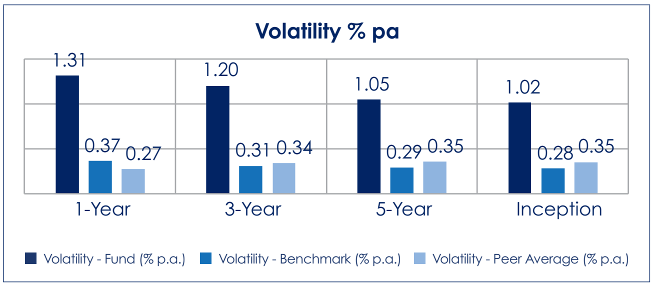
The Fund has displayed strong performance across all periods when compared with benchmark and peers.

The **return outcomes,** as described above are consistent with the PDS objective and SQM's expectations for the Fund relative to its fee level and volatility.

SQM Research notes that given the recent period of significantly lower cash-based returns, the degree of outperformance by mortgage funds has been high compared to earlier periods.

[1] **Note:** Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Risk



The Fund's **volatility** (standard deviation of monthly returns) has tended to be higher than benchmark and peers.

The true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/Investors should read the PDS/SPDS to understand those risks.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. Low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio add little statistical value (within the Mortgage Funds sector).

Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2018	+7.97	+3.45	+5.76	**+4.52**	**+2.21**
2019	+7.49	+3.02	+5.78	**+4.47**	**+1.71**
2020	+7.34	+1.87	+5.66	**+5.47**	**+1.69**
2021	+6.28	+1.53	+5.55	**+4.75**	**+0.73**
2022	+6.86	+2.77	+6.30	**+4.09**	**+0.56**
Feb-23	+1.36	+0.76	+1.05	**+0.61**	**+0.31**

2023 data = 2 months ending Feb-23

The table below outlines limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
Maximum exposure to a single loan	15%
Maximum exposure to a single borrower	20%
Maximum exposure to Construction / Development Property	30%
Maximum exposure to Rural property	10%
Maximum Exposure to Cash	10%
Maximum LVR	Construction loan 65%; all others 70%
Diversified Option maximum LVR	67% on a look-through basis
Property sectors excluded	petrol stations, boarding houses/hostels, primary producing land, childcare, NDIS, car parks, airports

Drawdown

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

Alpha = Fund Return – Benchmark Return

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/ quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

Glossary of Borrower Fees for Millbrook Credit Fund

Administration Fee

A flat fee is charged monthly.

Loan Establishment Fee

Fee charged on commencement of the loan, usually as a percentage of the loan amount.

Loan Discharge Fee

Fee charged when the Borrower repays the loan in full.

Loan Renewal / Extension Fee

Akin to Loan Establishment Fee on renewal or extension of the loan.

Default Realisation Fee

Fee charged if the Borrower defaults and the Lender sells any secured property (as Mortgagee in Possession). Charged as a percentage of the sale price of the property sold.

Pre-Settlement Arrangement Fee

Fee charged for organising funding to settle the Borrower's real estate purchase.

Default Correspondence

Charged for each letter sent to Borrower by Millbrook and the Lender.

Default Enforcement

Charged by the hour for enforcement action taken when a loan is in default.

Dishonour Fee

Charged when scheduled payments are not made on the due date.

Capital Reduction Cost

Charged when the Borrower elects to repay part of the loan amount in advance.

Payout Calculation and Preparation

Charged when Millbrook provides a payout figure (amount required to be paid to the Lender to discharge the loan) at the request of the Borrower.

Security Review

Charged annually to review the file.

Urgent Settlement Fee

Charged where loan settlement occurs within a specific period at the Borrower's request.

Insurance Default Fee

Charged when the Borrower fails to renew the insurance required to be held on the security property as a loan condition.

Early Repayment Fee

Charged if the Borrower elects to repay the entire loan before the completion of the loan term.

Line Fee

Applies only to construction loans. Charged depending on the specific circumstances of each loan.

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