FINEXIA Childcare Income Fund (ARSN 658 543 625)

7 September 2023

Fund overview

Launched	Oct 2022
Fund Loan Book (May 2023)	$51m
Fund Collateral Value	$95m
Loans	30
Average Loan Size	$1.8m
Target Income RBA Cash+	5.65%
Last Coupon	9.75%
Distribution Frequency	Monthly
Custodian	Perpetual
Investment Manager	Creative Capital
Responsible Entity	Finexia
Minimum Investment	$5,000
Fees:	
Management (% gross assets)	0.0%
Expenses (% gross assets)	0.0%
Acquisition (% purchase price)	0.0%
Performance	0.0%

Monthly Income Rate

	Monthly Income#	RBA Cash	Margin
Nov22	**8.00%**	2.85%	5.15%
Dec22	**8.00%**	3.10%	4.90%
Jan23	**8.00%**	3.10%	4.90%
Feb23	**9.00%**	3.35%	5.65%
Mar23	**9.25%**	3.60%	5.65%
Apr23	**9.25%**	3.60%	5.65%
May23	**9.50%**	3.85%	5.65%
Jun23	**9.75%**	4.10%	5.65%
Jul23	**9.75%**	4.10%	5.65%
Aug23	**9.75%**	4.10%	5.65%

MONTHLY PAYMENT ANNUALISED

Domestic Income Funds

Domestic Income Funds	Yield#	Assets
Finexia Childcare	**9.75%**	**Childcare**
Metrics (MXT)	9.68%	Corporate Loans
Qualitas Real Estate (QRI)	8.94%	Real Estate
Gryphon (GCI)	8.81%	RMBS, ABS
Perpetual Credit (PCI)	8.03%	Fixed Income

ANNUALISED YIELD OF FY24 MONTHLY DISTRIBUTIONS AT 7 SEP 2023

Federal Childcare Budget

Year	Federal Child Care Expenditure	Growth	% of Federal Expenditure
FY23	$10.54bn	7.5%	1.67%
FY24	$12.47bn	18.2%	1.83%
FY25	$13.38bn	7.3%	1.89%
FY26	$14.28bn	6.8%	1.94%
FY27	$14.95bn	4.7%	1.96%

SOURCE: FEDERAL BUDGET STRATEGY AND OUTLOOK

10% monthly yield from fully secured loans on childcare centres

- **Floating rate monthly income at a target margin 5.65% above RBA Cash:** Income generated by portfolio of secured loans to childcare businesses.
- **Childcare exposure via secured loans vs typically investor access via equity risk:** Fund is open to both wholesale and retail investors. Minimum investment $5,000
- **Essential service underpinned by $12.5bn Federal Budget in FY24:** Budget papers forecast a 42% increase in Childcare spend: $10.5bn in FY23 to $15.0bn in FY27.
- **Superior yield to ASX domestic income trusts, monthly redemptions at NTA:** ASX income trusts have traded at material discounts to NTA during adverse markets.
- **Returns enhanced by No Management Fees:** Fund charges no fees for Management, Expenses, Acquisitions or Performance. Fund expenses covered via lending spreads.
- **Rigorous lending criteria and security requirements reduce impairment risk:** Loans secured by first mortgage, a charge over the operating company, and personal guarantees by the operators. Maximum LVR 65%. Minimum loan term 12 months.
- **Specialist finance to highly experienced operators to open/trade-up new centres:** Loans can be structured with no repayments (interest capitalised) during the trade-up period, funding acquiring, opening, trading up, refurbishing or expanding centres. Currently >40% of loan portfolio to established / fully traded centres.
- **Banks minimising specialist financing due to excessive Capital Requirements:** Specialist financing solutions for child care centres currently attract an APRA Risk Weight of 150%, compared with Risk Weights as low as 20% for Prime Mortgages (LVR up to 50%) and Corporate Loans (credit rating AAA to AA-). Scenario 1 below for 10% loan book growth in Prime Mortgages (LVR 80%) and Corporate Loans (A rated): 3.8% of loans to be funded by CET1 (equity). Scenario 2 for 10% loan book growth via incremental Childcare Specialist Loans requires 15% of loans to be funded by CET1.

Bank Capital Requirements / Risk Weightings on Incremental Lending

	Existing Loans / Assets			Scenario 1 10% Loan Book Growth 10% Additional CET1 required $1 CET1 / $26 Loans = 3.8%			Scenario 2 10% Loan Book Growth - Child Care 39% Additional CET1 required $3.90 CET1 / $26 Loans = 15%		
Asset / Loan	Loans	Risk Weight	RWA	Loans	Risk Weight	RWA	Loans	Risk Weight	RWA
Mortgages (70.01-80% LVR)	$200	35%	$70	$220	35%	$77	$200	35%	$70
Corporate Loans (Rating A+ to A-)	$60	50%	$30	$66	50%	$33	$60	50%	$30
Child Care Specialist Loans							$26	150%	$39
Total	$260		**$100**	$286		**$110**	$286		**$139**
Capital Requirements: 10% CET1	Start	Additional	End	Start	**Additional**	End	Start	**Additional**	End
Common Equity Tier 1 (CET1)	$10	$0	$10	$10.00	**$1.00**	$11.00	$10.00	**$3.90**	$13.90
CET1 Ratio	10.00%	0.00%	10.00%	9.09%	0.91%	10.00%	7.19%	2.81%	10.00%

- **Loans refinanced via banks once centres traded up:** Banks have improved lending appetite for trading Childcare centres, providing cheaper loans with Risk Weights reducing to 70% (LVR 60%), requiring only 4.5% CET1 funding on incremental loans. On average Finexia's loan book meets bank credit requirements after 8 months.
- **Experienced private credit specialist team with ASX listed Finexia (FNX):** Investment Manager is Creative Capital Group, a wholly owned subsidiary of Finexia Financial Group, managed by Patrick Bell, who has had over 20 years experience in banking, private credit and finance, adopting rigorous lending practices for the Fund.
- **Risks include:**
  ⇒ **Default / Impairment Risk:** Risk that loans are not fully repaid due factors such as poor performing centres or impaired financial capacity of the borrower.
  ⇒ **Income / Funding Risk:** Potential for fund returns to decline due to more expensive funding and / or the ability to achieve current lending rates on new loans.
  ⇒ **Redemption Risk:** Ability of Finexia to timely manage large redemption requests.